



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Vaaldiam Resources Ltd. discloses that the comparative interim consolidated financial statements for the three and nine months ended September 30, 2007 have been prepared by management in accordance with generally accepted accounting principles in Canada and have not been audited or reviewed by the Company's auditors.

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VAALDIAM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	<u>As at</u>	
	<u>September 30, 2007</u>	<u>December 31, 2006</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 5,168,546	\$ 12,318,783
Restricted cash (Note 15)	173,730	429,300
Funds held in escrow (Note 6)	18,616,366	-
Inventories	432,053	-
Sundry receivables and prepayments	432,486	224,963
	<hr/> 24,823,181	<hr/> 12,973,046
Plant, property and equipment	2,672,590	819,202
Assets under construction (Note 13)	-	601,834
Exploration properties (Note 14)	19,817,670	10,468,100
Investment (Note 4)	366,667	-
Loan receivable (Note 5)	273,983	-
Brazilian sales tax recoverable (Note 8)	477,672	-
Deferred acquisition costs (Note 2)	366,137	-
	<hr/> \$ 48,797,900	<hr/> \$ 24,862,182
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 941,119	\$ 1,517,336
Subscription receipt liability (Note 6)	18,616,366	-
	<hr/> 19,557,485	<hr/>
LONG TERM LIABILITIES		
Future income taxes (Note 3)	1,851,351	-
Other non-current liabilities	18,607	-
	<hr/> 1,869,958	<hr/>
TOTAL LIABILITIES	<hr/> 21,427,443	<hr/> 1,517,336
MINORITY INTEREST IN EQUITY	<hr/> -	<hr/> 168,778
SHAREHOLDERS' EQUITY		
Common shares (Notes 3 and 11(a))	28,100,302	26,437,578
Subscription receipts (Notes 3 and 11(b))	5,690,492	-
Common share purchase warrants (Note 11(c))	307,125	277,333
Contributed surplus (Note 11(d))	277,333	-
Stock options (Note 11 (e))	3,364,235	1,868,910
Deficit	(10,235,696)	(5,407,753)
Accumulated other comprehensive loss (Note 4)	(133,334)	-
TOTAL SHAREHOLDERS' EQUITY	<hr/> 27,370,457	<hr/> 23,176,068
	<hr/> \$ 48,797,900	<hr/> \$ 24,862,182

Basis of Presentation (Note 2)
See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(UNAUDITED)**

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Expenses				
Corporate and general	\$ 552,514	\$ 282,376	\$ 1,558,308	\$ 1,087,665
Capital tax	106	-	22,516	10,098
Stock-based compensation (Note 11(e))	-	-	1,495,325	1,277,465
Amortization	95,435	49,368	212,893	121,630
Foreign exchange (gain)/loss	60,034	11,355	62,993	33,910
Total expenses (Note 6)	<u>708,089</u>	<u>343,099</u>	<u>3,352,035</u>	<u>2,530,768</u>
Less: Interest income	38,509	149,398	175,591	395,608
	<u>669,580</u>	<u>193,701</u>	<u>3,176,444</u>	<u>2,135,160</u>
Net loss before the following	(669,580)	(193,701)	(3,176,444)	(2,135,160)
Write-off of exploration properties (Note 14)	(10,876)	-	(1,650,901)	(456,343)
Net loss before minority interest	<u>(680,456)</u>	<u>(193,701)</u>	<u>(4,827,345)</u>	<u>(2,591,503)</u>
Minority interest	-	-	(598)	-
Net loss for the period	<u>(680,456)</u>	<u>(193,701)</u>	<u>(4,827,943)</u>	<u>(2,591,503)</u>
Deficit, beginning of period	<u>(9,555,240)</u>	<u>(4,288,049)</u>	<u>(5,407,753)</u>	<u>(1,890,247)</u>
Deficit, end of period	<u>\$ (10,235,696)</u>	<u>\$ (4,481,750)</u>	<u>\$ (10,235,696)</u>	<u>\$ (4,481,750)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net loss	\$ (680,456)	\$ (193,701)	\$ (4,827,943)	\$ (2,591,503)
Other comprehensive loss:				
Unrealized loss on investment	(77,778)	-	(133,334)	-
Other comprehensive loss	<u>(77,778)</u>	<u>-</u>	<u>(133,334)</u>	<u>-</u>
Comprehensive loss	<u>\$ (758,234)</u>	<u>\$ (193,701)</u>	<u>\$ (4,961,277)</u>	<u>\$ (2,591,503)</u>

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	<u>Three Months Ended</u> <u>September 30</u>		<u>Nine Months Ended</u> <u>September 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Operating Activities				
Net loss for the period	\$ (680,456)	\$ (193,701)	\$ (4,827,943)	\$ (2,591,503)
Amortization	95,435	49,368	212,893	121,630
Write-off of exploration properties (Note 14)	10,876	-	1,650,901	456,343
Stock-based compensation (Note 11(e))	-	-	1,495,325	1,277,465
Unrealized foreign exchange loss (gain)	(29,362)	-	(32,474)	-
Minority interest	-	-	598	-
	<u>(603,507)</u>	<u>(144,333)</u>	<u>(1,500,700)</u>	<u>(736,065)</u>
Change in non-cash components of working capital				
Sundry receivables and prepayments	(190,137)	(104,564)	(207,523)	(269,236)
Other assets	(362,912)	-	(477,672)	-
Inventories	(382,065)	-	(382,065)	-
Accounts payable and accrued liabilities	124,583	1,075,562	365	1,225,090
	<u>(810,531)</u>	<u>970,998</u>	<u>(1,066,895)</u>	<u>955,854</u>
	<u>(1,414,038)</u>	<u>826,665</u>	<u>(2,567,595)</u>	<u>219,789</u>
Investing Activities				
Purchase of property and equipment	(233,640)	(184,703)	(1,343,020)	(309,390)
Mineral exploration expenditures (Note 14)	(1,221,948)	(2,136,174)	(6,189,196)	(4,563,113)
Mineral property acquisitions	-	-	(2,266,425)	-
Purchase of investment	-	-	(500,000)	-
Restricted cash	10,876	791,720	255,570	302,453
Deferred acquisition expenditures	(366,137)	-	(366,137)	-
	<u>(1,810,849)</u>	<u>(1,529,157)</u>	<u>(10,409,208)</u>	<u>(4,570,050)</u>
Financing Activities				
Net proceeds from issue of capital stock and repayment of notes receivable (Note 11(a))	-	-	102,932	12,144,166
Net proceeds from issue of subscription receipts	5,997,617	-	5,997,617	-
Loan receivable	(273,983)	-	(273,983)	-
	<u>5,723,634</u>	<u>-</u>	<u>5,826,566</u>	<u>12,144,166</u>
Changes in cash and cash equivalents	<u>2,498,747</u>	<u>(702,492)</u>	<u>(7,150,237)</u>	<u>7,793,905</u>
Cash and cash equivalents, beginning of period	<u>2,669,799</u>	<u>15,313,939</u>	<u>12,318,783</u>	<u>6,817,542</u>
Cash and cash equivalents, end of period	<u>\$ 5,168,546</u>	<u>\$ 14,611,447</u>	<u>\$ 5,168,546</u>	<u>\$ 14,611,447</u>
Cash and cash equivalents are comprised of the following:				
Cash	\$ 943,794	\$ 1,240,532	\$ 943,794	\$ 1,240,532
Short-term investments	4,224,752	13,370,915	4,224,752	13,370,915
	<u>\$ 5,168,546</u>	<u>\$ 14,611,447</u>	<u>\$ 5,168,546</u>	<u>\$ 14,611,447</u>

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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1. NATURE OF OPERATIONS

Vaaldiam Resources Ltd. (a development stage entity until September 1, 2007) (the “Company” or “Vaaldiam”) is a publicly held company incorporated under the Canada Business Corporations Act. The Company is engaged in the investigation, acquisition, exploration and development of mineral properties and in mining operation. Substantially all of the efforts of the Company are devoted to these business activities.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and do not contain all of the disclosures required for annual financial statements. As a result, these consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements as at and for the year ended December 31, 2006.

The consolidated financial statements include the accounts of the Company and its subsidiaries, all incorporated in Brazil:

- Vaaldiam’s 100% owned Vaaldiam do Brasil Mineração Ltda. (“VBM”), formerly Mineração Paraguaçu Indústria e Comércio Ltda.;
- VBM’s 100% owned Mineração Montes Claros Ltda.; and
- Cajueiro Mineração S.A. (“Cajueiro”), owned 60% by VBM and 40% by Vaaldiam.

All inter-company balances and transactions have been eliminated on consolidation.

The consolidated financial statements for the three and nine months ended September 30, 2007 have been prepared using the same accounting policies as those used to prepare the most recent annual audited consolidated financial statements, except as follows:

(a) Investment

During the nine months ended September 30, 2007, the Company purchased an equity investment that is classified as available for sale for accounting purposes. To the extent that the equity investment has a quoted market price, it is recorded on the consolidated balance sheet at fair value with unrealized gains and losses recorded in other comprehensive income or loss, otherwise it is recorded at cost. Realized gains and losses are recorded in the consolidated statement of loss and deficit when the investment is sold. If the fair value of the investment declines below its carrying amount, an amount is recorded in earnings to the extent that any unrealized declines in fair value are judged to be other than temporary.

(b) Revenue recognition

Revenue from the sale of rough diamonds is recognized when title transfers and the rights and obligations of ownership pass to the purchaser. It is at this point that the purchase price is agreed, delivery has occurred, and all significant acts have been completed. Revenue from the sale of gold produced as a by-product is recognized as a reduction of cost of sales.

Revenues incurred during the phase of pre-commercial production were recorded as a reduction in deferred pre-production operating costs.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined on an average cost basis including direct and indirect mining and processing costs and the amortization of mining assets and deferred mine exploration and development costs.

3. PROPERTY ACQUISITION**Acquisition of Cajueiro**

On March 1, 2007, the Company acquired the 40% share of Cajueiro that was owned by Majescor Resources Inc. As a result of the acquisition, the Company owns 100% of Cajueiro, 40% directly, and the remaining through its subsidiary, VBM. The purchase consideration for this transaction was \$3,766,425, comprised of \$2,000,000 cash, \$1,559,792 in common shares in the Company, and \$266,425 of transaction costs. A 1% royalty would be payable to Majescor on the proceeds from sale of diamonds mined from the Braúna property, net of diamond marketing costs.

The property acquisition was accounted for using the purchase method, whereby identifiable assets and liabilities were recorded at their fair market values as of the date of acquisition.

The purchase price and preliminary allocation of the purchase price was calculated as follows and is subject to adjustment. A detailed valuation is expected to be carried out over the remainder of the year. The excess of purchase price over carrying value of the assets acquired was allocated to mineral properties.

The purchase price was calculated as follows:

Cash	\$	2,000,000
Common shares issued (1,733,102 common shares at \$0.90 per share)		1,559,792
Transaction costs		266,425
<u>Purchase Price</u>	\$	<u>3,826,217</u>

The purchase price was allocated as follows:

Net working capital acquired	\$	13,123
Property, plant and equipment		1,390
Mineral properties		5,704,192
Long-term liabilities		(8,663)
Future income taxes		(1,883,825)
<u>Net identifiable assets</u>	\$	<u>3,826,217</u>

4. INVESTMENT

During the nine months ended September 30, 2007, the Company acquired 1,111,112 Units of Great Western Diamonds Corp. ("Great Western") at \$0.45 per Unit, for a total consideration of \$500,000. Each Unit consisted of one common share (allocated at \$0.445 per share) and a half-warrant (allocated at \$0.005 per half warrant) to acquire one Great Western common share at an exercise price of \$0.60 at any time until March 30, 2009. On September 30, 2007, the closing price of Great Western's common shares on the TSX Venture Exchange was \$0.325, giving rise to an other comprehensive loss of \$133,334.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

5. BUSINESS ACQUISITION

On July 3, 2007, the Company announced its intention to acquire all of the outstanding shares of diamond producer Elkedra Diamonds NL (“Elkedra”), a company listed on Australia’s ASX and London’s AIM (“Elkedra transaction”), and diamond explorer Great Western, a TSX-Venture Exchange company (“Great Western transaction”). Under the terms of the planned scheme of arrangement, each Elkedra shareholder will be entitled to receive 0.52 of a Vaaldiam common share for each Elkedra common share, and each Great Western shareholder will be entitled to receive 0.45 of a Vaaldiam common share per Great Western common share.

On October 29, 2007, Elkedra shareholders approved the Elkedra transaction and on November 1, 2007, approval was obtained from the Supreme Court of Western Australia. The Elkedra transaction is expected to be concluded on November 20, 2007. Formal takeover offer document for the Great Western transaction was mailed out to Great Western’s shareholders on November 9, 2007. The Offer is open for acceptance until December 17, 2007.

As the agreement between the Company and Elkedra restricted Elkedra from raising any finance before the Elkedra transaction is completed, the Company undertook to provide a line of credit of US\$750,000 to Chapada Brasil Mineração Ltda. the Brazilian subsidiary of Elkedra, in order to provide working capital to Elkedra’s mine at Chapada, Mato Grosso in Brazil. The loan is secured with a second charge in assets in relation to LinQ, and repayment of both principal and interest are subordinated to the LinQ’s rights. The loan was granted at an interest rate of 3% + US Dollar LIBOR for repayment of both principal and interest within 360 days from each drawdown. As at September 30, 2007, an amount of US\$275,000 had been drawn down.

6. PRIVATE PLACEMENT

On July 19, 2007, the Company entered into an underwriting agreement with Canaccord Capital Corporation (“Canaccord”) which agreed to purchase, on an underwritten private placement basis (the “Offering”), 29,500,000 subscription receipts of the Company (the “Subscription Receipts”) at a price of \$0.90 per Subscription Receipt for aggregate gross proceeds of \$26,550,000. The terms of the underwriting agreement were subsequently revised on August 8, 2007 to reflect an offering of 29,250,000 Subscription Receipts for aggregate gross proceeds of \$26,325,000. The Offering closed on August 15, 2007 and net proceeds of \$6,072,275, representing 25% of the gross proceeds of the Offering less commission to underwriters and legal expenses, was released to the Company. The remaining 75% was deposited in escrow to be released to the Company following the closing of the Elkedra transaction. Each Subscription Receipt comprised of one common share of the Company and one-half of one common share purchase warrant (each an “Underlying Warrant”). Each Underlying Warrant can be exchanged for one additional common share of the company at an exercise price of \$1.20 per share within 24 months from the Closing Date of the Offering. A 6% commission as well as 1,755,000 Broker Warrants were issued to the underwriters. The Broker Warrants were ascribed a value of \$307,125, for accounting purposes

As the result of the funds on escrow being refundable in the event that Elkedra transaction is not closed, the amount of cash on escrow has been recorded as a liability on the balance sheet.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

7. COMMENCEMENT OF COMMERCIAL PRODUCTION

Commissioning of the Duas Barras mine begun in May 2007, and the Company commenced commercial production on September 1, 2007, after achieving physical project completion, a sustained level of mining and diamond processing activity and the passage of a reasonable testing and commissioning period.

8. BRAZILIAN SALES TAX RECOVERABLE

ICMS is the State Value Added Tax imposed by the individual states in Brazil. PIS and COFINS are Federal Contributions for the purposes of social financing. An ICMS taxpayer may recover input tax charged on goods and certain services and a PIS and COFINS taxpayer may recover input contribution charged on certain good and services. In both instances, the charges that are recoverable are in respect of purchases made for the purpose of manufacturing or production of supplies, and can be recovered as a deduction from output tax charged on the goods sold. As the Company's Duas Barras mine has commenced production and is expected to be subject to output taxes in the near future, the amounts recoverable are recorded.

9. ANALYSIS OF EXPENSES

During the nine months ended September 30, 2007, the Company's expenses amounted to \$3,352,035 compared to \$2,530,768 for the comparative nine month period.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Stock based compensation	\$ -	\$ -	\$ 1,495,325	\$ 1,277,465
TSX listing expenses	63,210	-	63,210	120,322
Administration	232,369	119,079	418,993	335,388
Investor relations	98,622	51,233	236,666	194,996
Business development	6,158	-	322,952	-
Project development	-	-	-	6,688
General travel	-	718	2,999	7,369
Audit, tax and related fees	44,300	15,000	104,493	42,080
Group health insurance	15,032	12,044	44,732	30,714
General legal fees	861	4,908	15,750	25,714
Stationery and printing	4,233	4,021	11,038	13,992
Telephone and fax	11,859	6,855	26,701	19,009
IT support	1,872	2,801	11,394	5,204
Sundry expenses	5,541	6,078	22,693	30,529
Annual meeting expenses	1,230	1,540	72,005	54,647
Directors' fees	16,200	16,200	48,600	43,200
Registrar's fees	13,259	1,954	17,199	12,912
Office rent	25,734	18,655	77,204	49,273
Filing fees	5,949	6,174	28,979	37,878
General insurance	2,981	7,735	21,646	19,508
Amortization	95,435	49,368	212,893	121,630
Capital tax	106	(5,107)	22,516	4,991
Foreign exchange loss	60,034	11,355	62,993	33,910
Tax on unspent flow-through funds	3,104	12,488	11,054	43,349
	\$ 708,089	\$ 343,099	\$ 3,352,035	\$ 2,530,768

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

10. RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows for the nine months ended September 30, 2007:

During the nine months ended September 30, 2007, VBM paid \$30,532 for accounting and administration services to a major shareholder.

During September 2004, the Company granted initially interest free loans totalling \$212,790 to four directors, which loans were used to acquire 531,975 units of the Company as part of a private placement. Of these loans, \$112,790 were repaid during the quarter ended March 31, 2006 including interest thereon calculated at the Canadian prime rate plus 3% from January 1, 2006. The remaining loan of \$100,000, together with interest thereon, was repaid on March 16, 2007.

In May 2006, a loan, repayable on demand in the amount of \$40,000 and bearing interest at the Canadian prime rate plus 3%, was granted to an officer and director, and was still outstanding as at September 30, 2007.

During the nine months ended September 30, 2007, by means of a private placement, the Company invested \$500,000 in units of Great Western, which has amongst its major shareholders a subsidiary of Vaaldiam's major shareholder.

11. CAPITAL STOCK**(a) Common Shares Issued**

	<u>Shares</u>	<u>Amount</u>
Balance, January 1, 2007	81,449,352	\$ 26,437,578
Shares issued for the purchase of Cajueiro (net of expenses for share issue of \$4,256) (Note 3)	1,733,102	1,555,536
Exercise of options	18,750	5,438
Repayment of share purchase loan to director	-	100,000
Interest received on share purchase loan	-	1,750
Balance, September 30, 2007	83,201,204	\$ 28,100,302

(b) Subscription Receipts

	<u>Units</u>	<u>Amount</u>
Balance, January 1, 2007	-	\$ -
Subscription Receipts issued (Note 6)	7,312,500	6,581,250
Issuance costs	-	(890,758)
Balance, September 30, 2007	7,312,500	\$ 5,690,492

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

(c) Common Share Purchase Warrants

	<u>Warrants</u>	<u>Amounts</u>
Balance, January 1, 2007	495,238	\$ 277,333
Issued in period	1,755,000	307,125
Expired in period	(495,238)	(277,333)
	<hr/>	
Balance, September 30, 2007	1,755,000	\$ 307,125
	<hr/>	

(d) Contributed Surplus

Contributed surplus relates to the value of expired warrants previously issued pursuant to private placements. During the first quarter, a total of \$277,333, being the fair value of 495,238 warrants that expired, was reallocated from warrants to contributed surplus.

(e) Stock Options

	<u>Number</u>	<u>Weighted Av. Price</u>
Options outstanding January 1, 2007	4,398,750	\$ 0.64
Issued	2,675,000	0.85
Exercised	(18,750)	(0.29)
	<hr/>	
Options outstanding September 30, 2007	7,055,000	\$ 0.72
	<hr/>	

<u>Exercise Price</u>	<u>Outstanding June 30, 2007</u>	<u>Weighted Av. Life (Years)</u>
\$ 0.40	40,000	0.01
0.45	525,000	0.15
0.50	1,330,000	0.22
0.50	100,000	0.02
0.50	55,000	0.02
0.75	2,105,000	0.98
0.85	100,000	0.04
0.85	2,675,000	1.63
0.97	50,000	0.03
1.37	75,000	0.04
	<hr/>	
	7,055,000	3.14
	<hr/>	

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

During the nine months ended September 30, 2007, the Company recognized a stock based compensation expense of \$1,495,325 utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

	<u>September 30, 2007</u>
Risk-free interest rate	3.94%
Expected dividend yield	0.00%
Expected share price volatility	80.74%
Expected life of options	5 years

The fair value of options outstanding as at September 30, 2007 is as follows:

	<u>Number</u>	<u>Stock Option Value</u>
Options outstanding January 1, 2007	4,398,750	\$ 1,868,910
Issued	2,675,000	1,495,325
Exercised	(18,750)	-
	<hr/>	<hr/>
Options outstanding September 30, 2007	7,055,000	\$ 3,364,235

12. SUMMARY OF SECURITIES AS AT SEPTEMBER 30, 2007

Common shares outstanding	83,201,204
Unexercised options to acquire common shares	7,055,000
Unexercised warrants to acquire common shares	1,755,000
Subscription receipts	29,250,000
Subscription receipt warrants	14,625,000
Fully diluted shares outstanding	<u>135,886,204</u>

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

13. ASSETS UNDER CONSTRUCTION

Construction of the Duas Barras mine began in 2006, with a diamond recovery plant and infrastructure being built. Commissioning commenced in May 2007. Following commencement of commercial production on September 1, 2007, these amounts were transferred to plant and equipment and are being amortized over the life of the mine on a unit of production basis.

14. EXPLORATION PROPERTIES

<u>Property</u>	<u>Balance Jan. 1, 2007</u>	<u>Additions</u>	<u>Amortized</u>	<u>Balance September 30, 2007</u>
Pimenta Bueno - Brazil	\$ 3,775,694	\$ 73,677	\$ -	3,849,371
Braúna - Brazil	1,783,934	7,110,404		8,894,338
Duas Barras - Brazil	3,400,302	3,704,681	(142,732)	6,962,251
Aroeira Area - Brazil	111,710	-		111,710
Coronation Gulf - Canada ⁽¹⁾	1,396,460	(1,396,460)		-
	<u>\$ 10,468,100</u>	<u>\$ 9,492,302</u>	<u>\$ (142,732)</u>	<u>\$ 19,817,670</u>

⁽¹⁾ Property written off includes an additional \$254,441 of exploration expenditures incurred during the nine months ended September 30, 2007.

In June 2007, the Company restructured its joint venture agreement with Rio Tinto regarding the Pimenta Bueno property, whereby Rio Tinto transferred operatorship and 100% ownership of the Southern Block of the project to the Company, subject to Rio Tinto's back-in rights to a 60% interest in any kimberlite pipe that meets Rio Tinto's development criteria, at which point Rio Tinto would complete and fully fund a feasibility study. Should Rio Tinto then decide to develop a mine, it would fully fund the construction of the mine on a non-recourse basis and the Company would retain a 40% equity interest in cash flow from the mine after repayment of the Company's share of construction funding.

In April 2007, following the analysis of sampling results, the decision was made to terminate the option on the Coronation Gulf property and all expenditures incurred up to March 2007 in the amount of \$1,514,753 were written off. In the 6 months from April 1, 2007 to September 30, 2007, an additional \$136,148 was expended and written off, giving rise to a total of \$1,650,901 being written off in the nine months ended September 30, 2007.

15. FLOW-THROUGH SHARES AND COMMITMENTS

As at September 30, 2007, the Company was obligated to incur \$173,730 in eligible Canadian Exploration Expenses prior to December 31, 2007. Restricted cash represents cash held in a separate bank account which is to be spent on eligible flow-through activities.