



**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

VAALDIAM RESOURCES LTD.

DECEMBER 31, 2007 AND 2006

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AUDITORS' REPORT

To the Shareholders of
Vaaldiam Resources Ltd.

We have audited the consolidated balance sheets of Vaaldiam Resources Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 27, 2008
Toronto, Canada

(signed)
Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

VAALDIAM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

ASSETS

	Notes	2007	2006
Current Assets			
Cash and cash equivalents		\$ 10,928,569	\$ 12,318,783
Restricted cash	16	-	429,300
Inventories	4	2,406,024	-
Brazilian taxes recoverable	8	262,449	-
Sundry receivables and prepayments		328,926	224,963
		13,925,968	12,973,046
Property, plant and equipment	5	10,455,555	1,421,036
Mineral properties	6	97,547,162	10,468,100
Investment	7	250,000	-
Brazilian taxes and contributions recoverable	8	807,145	-
Deferred charges	3	267,994	-
		\$ 123,253,824	\$ 24,862,182

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities			
Accounts payable and accrued liabilities		\$ 2,076,522	\$ 1,517,336
		2,076,522	1,517,336
Asset retirement obligations	10	377,387	-
Future income tax liabilities	14	25,856,571	-
Minority interest		-	168,778
Shareholders' equity			
Common shares	11(a)	98,329,103	26,437,578
Common share purchase warrants	11(b)	3,652,732	277,333
Contributed surplus	11(c)	277,333	-
Stock options	11(d)	3,786,319	1,868,910
Deficit		(10,852,143)	(5,407,753)
Accumulated other comprehensive loss		(250,000)	-
		94,943,344	23,176,068
		\$ 123,253,824	\$ 24,862,182
Commitments and contingencies			
	6,19		
Subsequent events			
	20		

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:



Director



Director

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	Notes	2007	2006
Sales		\$ 1,399,303	\$ -
Cost of sales		927,940	-
Mine infrastructure and administration		855,985	-
Corporate and general		2,627,591	1,453,089
Stock-based compensation	11(d)	1,495,325	1,418,100
Amortization		340,752	167,758
Foreign exchange (gain)/loss		(249,223)	16,068
		5,998,370	3,055,015
Operating loss		(4,599,067)	(3,055,015)
Interest income		345,716	523,464
Write-off of exploration properties	6(g)	(1,650,901)	(1,165,678)
Net loss before income taxes and minority interest		(5,904,252)	(3,697,229)
Income tax recovery		460,460	180,600
Net loss before minority interest		(5,443,792)	(3,516,629)
Minority interest		(598)	(877)
Net loss for the year		(5,444,390)	(3,517,506)
Deficit, beginning of year		(5,407,753)	(1,890,247)
Deficit, end of year		\$ (10,852,143)	\$ (5,407,753)
Basic and diluted loss per common share		\$ (0.06)	\$ (0.04)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2007	2006
Net loss		\$ (5,444,390)	\$ (3,517,506)
Other comprehensive loss:			
Unrealized loss on investment	7	(250,000)	-
Other comprehensive loss		(250,000)	-
Comprehensive loss		\$ (5,694,390)	\$ (3,517,506)

See accompanying notes to consolidated financial statements.

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2007	2006
Operating Activities			
Net loss for the year		\$ (5,444,390)	\$ (3,517,506)
Amortization and depreciation		515,238	167,758
Accretion expense	10	6,664	-
Write-off of exploration properties	6	1,650,901	1,165,678
Stock-based compensation	11(d)	1,495,325	1,418,100
Unrealized foreign exchange loss (gain)		(271,981)	-
Future income tax recovery	11(a)	(460,460)	(180,600)
Minority interest		598	877
		<u>(2,508,105)</u>	<u>(945,693)</u>
Change in non-cash components of working capital			
Increase in sundry receivables and prepayments		(39,547)	(90,512)
Increase in sales taxes recoverable		(1,069,594)	-
Increase in inventories		(1,403,247)	-
Increase in accounts payable and accrued liabilities		334,280	72,416
		<u>(2,178,108)</u>	<u>(18,096)</u>
Cash used in operating activities		<u>(4,686,213)</u>	<u>(963,789)</u>
Investing Activities			
Purchase of property and equipment		(1,793,654)	(1,219,190)
Mineral exploration expenditures		(7,617,920)	(5,565,723)
Restricted cash		429,300	902,616
Acquisition of Elkedra	3	(2,159,746)	-
Acquisition of Cajueiro	3	(2,266,425)	-
Investments		(500,000)	-
Increase in deferred charges		(90,938)	-
Cash used in investing activities		<u>(13,999,383)</u>	<u>(5,882,297)</u>
Financing Activities			
Net proceeds from issuance of common shares and common share purchase warrants and repayment of notes receivable	9, 11(a)(v), (vii)	24,493,864	12,179,426
Proceeds from issuance of shares in subsidiary to minority interest		-	167,901
Repayment of long-term debt	3	(7,198,482)	-
Cash provided by financing activities		<u>17,295,382</u>	<u>12,347,327</u>
Changes in cash and cash equivalents		(1,390,214)	5,501,241
Cash and cash equivalents, beginning of year		12,318,783	6,817,542
Cash and cash equivalents, end of year		<u>\$ 10,928,569</u>	<u>\$ 12,318,783</u>
Cash and cash equivalents are comprised of the following:			
Cash		\$ 2,982,857	\$ 1,681,050
Short-term investments		7,945,712	10,637,733
		<u>\$ 10,928,569</u>	<u>\$ 12,318,783</u>

Supplementary cash flow information (Note 18)

See accompanying notes to consolidated financial statements.

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

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 operations through its Duas Barras mine in Minas Gerais state and its Chapada mine in Mato Grosso state in Brazil. Substantially all of the efforts of the Company are devoted to these business activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("CGAAP").

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

- Vaaldiam do Brasil Mineração Ltda. ("VBM"), formerly Mineração Paraguaçu Indústria e Comércio Ltda., 100% owned by Vaaldiam;
- Mineração Montes Claros Ltda. ("Montes Claros"), 100% owned by Vaaldiam;
- Cajueiro Mineração Ltda. ("Cajueiro"), owned 60% by VBM and 40% by Vaaldiam;
- Elkedra Diamonds N.L. ("Elkedra"), 100% owned by Vaaldiam;
- Chapada Diamonds Limited ("CDL"), 100% owned by Elkedra; and
- Chapada Brasil Mineração Ltda. ("CBM"), 100% owned by CDL.

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

(c) Use of Estimates

The preparation of financial statements in conformity with CGAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, particularly mineral properties, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas that require the use of estimates include the assessment of valuation impairment of property, plant and equipment, estimation of the asset retirement obligation, valuation of inventories and the determination of the existence and value of tax assets and related valuation allowances. Actual results could differ from those estimates.

(d) Foreign Currency Translation

The Company's foreign subsidiaries are operationally and financially dependent on the parent company and as such, are considered to be integrated operations for accounting purposes and are translated using the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the historical rate of exchange. Revenues and expenses, other than depreciation and amortization, are translated into Canadian dollars at the average exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the consolidated statements of operations and deficit.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand, bank balances and all highly liquid short-term investments. The Company considers all highly liquid short-term investments with a maturity of three months or less at the date of purchase to be cash equivalents.

(f) 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.

(g) Property, Plant and Equipment

The Company's property, plant and equipment is recorded at cost and is amortized over the useful life of the assets as follows:

Plant and mining equipment	Unit of production basis over indicated mineral resources
Vehicles	- 30%, declining balance basis
Leasehold improvements	- 30%, declining balance basis
Exploration and other equipment	- 30%, declining balance basis
Furniture and fixtures	- 20%, declining balance basis
Computers	- 30%, declining balance basis

The Company's assets under construction are recorded at cost and are transferred to property, plant and equipment together with any pre-production revenues at the commencement of commercial production.

(h) Mineral Properties and Deferred Exploration Expenditures

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time they will be amortized on a unit-of-production basis based on total indicated mineral resources, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge would be made.

The recoverability of the carrying value of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing or other means to complete development of the properties, and the future profitable production or proceeds from the disposition of the properties.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

(i) Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that the carrying amount is not recoverable, an impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investment

Available-for-sale investments recorded on the consolidated balance sheet at fair value, to the extent that the equity investment has a quoted market price, with unrealized gains and losses recorded in other comprehensive income or loss. Realized gains and losses are recorded in the consolidated statement of operations and deficit when the investment is sold. An impairment loss is recorded in the consolidated statement of operations and deficit to the extent that any unrealized declines in fair value are judged to be other than temporary.

(k) 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 which generally occurs when the goods are received by the customer. 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 at the time when the goods are received by the customer.

(l) Stock-based Compensation

The Company has a stock-based compensation plan, which is described in Note 11(d). The Company accounts for all stock-based payments using the fair value method, calculated based on the Black-Scholes valuation model. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized over the option vesting period. Options normally vest immediately under Company policy and the fair value of these options are expensed on the date of grant.

(m) Asset Retirement Obligations

The Company accrues the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded to the extent that actual cost is more or less than the initial estimate.

(n) Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates and laws expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Flow-Through Common Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issuance of such shares have been credited to share capital and the related exploration costs are deferred to exploration properties when incurred. 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.

(p) Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants, with average market prices for the year greater than their exercise prices, were exercised and the proceeds used to repurchase common shares.

NEW ACCOUNTING PRONOUNCEMENTS

The Canadian Institute of Chartered Accountants has recently issued the following new or amended accounting pronouncements:

(a) Financial Instruments – Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863)

Section 3862 replaces the disclosure portion of Section 3861, Financial Instruments – Disclosure and Presentation, and places increased emphasis on disclosing the nature and extent of risks arising from both recognized and unrecognized financial instruments, and how these risks are managed. Section 3863 carries forward the presentation requirements from Section 3861.

(b) Capital Disclosures (Section 1535)

This section establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed in order to enable users of its financial statements to evaluate the entity's objectives, policies and processes of managing capital.

(c) General Standards of Financial Statement Presentation (Section 1400)

The amendment to this section provides revised guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. The main features of the changes are as follows:

- Management is required to make an assessment of an entity's ability to continue as a going concern;
- In making its assessment, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date;

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Financial statements must be prepared on a going concern basis unless management intends to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so;
- Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern;
- When financial statements are not prepared on a going concern basis, the fact should be disclosed, together with the basis on which the financial statements are prepared and the reason the entity is not regarded as a going concern.

(d) Goodwill and Intangible Assets (Section 3064)

This section replaces Section 3062, Goodwill and other Intangible Assets and section 3450, Research and Development Costs. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets, and provides extensive guidance on when expenditures qualify for recognition as intangible assets. Standards concerning goodwill are unchanged from the standards previously included in Section 3062.

The above standards will become effective for the Company beginning on January 1, 2008, except for Section 3064 which will become effective on January 1, 2009. The Company is reviewing these standards, and has not yet determined the impact, if any, on the consolidated financial statements.

3. BUSINESS ACQUISITIONS

Business acquisitions are accounted for using the purchase method, whereby identifiable assets and liabilities are recorded at their fair market values as of the date of acquisition.

ACQUISITION OF CAJUEIRO

On March 1, 2007, the Company acquired the 40% share of Cajueiro that was owned by Majescor Resources Inc. ("Majescor"). As a result of the acquisition, the Company owned 100% of Cajueiro, 40% directly, and the remaining through its subsidiary, VBM. The purchase consideration for this transaction was \$3,826,217, 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 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
Purchase price	\$ 3,826,217

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

3. BUSINESS ACQUISITIONS (CONTINUED)

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)
Net identifiable assets	\$ 3,826,217

ACQUISITION OF ELKEDRA

On November 20, 2007, the Company concluded the acquisition of 100% share of diamond producer Elkedra Diamonds NL, a company listed on the Australian Securities Exchange ("ASX") and London's Alternative Investment Market ("AIM"), and its Chapada mine, through a scheme of arrangement whereby each Elkedra shareholder received 0.52 of a Vaaldiam common share for each Elkedra common share. Elkedra was subsequently delisted from the ASX and the AIM in the same month. The purchase consideration for the Elkedra transaction was \$50,774,881, comprised of 55,622,557 Vaaldiam common shares valued at \$48,788,708, 6,309,334 warrants and share options valued at \$1,135,316, and \$850,857 transaction costs.

The purchase price was calculated as follows:

Common shares issued (55,622,557 common shares at \$0.8771 per share)	\$ 48,788,708
Fair value of 6,309,334 warrants and options issued	1,135,316
Transaction costs	850,857
Purchase Price	\$ 50,774,881

The fair values of the warrants and options were estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	4.22%
Expected dividend yield	0.00%
Expected share price volatility	42.3%-63.0%
Expected life of warrants and options	0.8-2.5 years

On a preliminary basis, the purchase price was allocated as follows:

Net working capital acquired	\$ 188,995
Property, plant and equipment	7,356,827
Mineral properties	75,436,450
Long-term debt	(8,771,848)
Future income taxes	(23,435,543)
Net identifiable assets	\$ 50,774,881

The preliminary allocation of the purchase price is based on internal management valuations and anticipated tax basis elections. The purchase price allocation may change upon final determination of the fair value of assets acquired and liabilities assumed. The impact of any final adjustments may be material and will be recorded on a prospective basis.

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

3. BUSINESS ACQUISITIONS (CONTINUED)

In December 2007, following the acquisition of Elkedra, the Company repaid the outstanding long term loan of A\$8,000,000 and interest thereon owing by Elkedra to LinQ Capital Limited (LinQ) with a fixed and floating charge over Elkedra's assets. As a result of the repayment, the Company is debt-free as at December 31, 2007 and its assets free of any encumbrances.

ACQUISITION OF GREAT WESTERN

On July 3, 2007, the Company announced its intention to acquire all of the outstanding shares of diamond explorer Great Western Diamonds Corp. ("Great Western"), a TSX-Venture Exchange listed company. Under the terms of the offer, each Great Western shareholder was entitled to receive 0.45 of a Vaaldiam common share per Great Western common share.

The formal takeover offer document for the Great Western transaction was mailed out to Great Western's shareholders on November 9, 2007. At the expiry of the offer on December 17, 2007, 82.8% of the issued and outstanding shares of Great Western had been tendered. The Company then decided to waive the minimum tender condition and a notice of variation was sent to the Great Western shareholders with the offer being extended to January 2, 2008. See Note 20.

4. INVENTORIES

Inventories at the end of the year included diamond and gold for sale, as well as supplies inventory.

	2007		2006	
Diamond and gold inventory	\$	2,153,410	\$	-
Supplies inventory		252,614		-
	\$	2,406,024	\$	-

5. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Plant and mining equipment	\$ 8,964,446	\$ 170,248	\$ 8,794,198	\$ -	\$ -	\$ -
Leasehold Improvements	186,566	45,431	141,135	140,979	19,740	121,239
Exploration & other equipment	1,056,113	302,308	753,805	591,109	138,196	452,913
Vehicles	676,706	173,458	503,248	221,902	91,089	130,813
Furnitures & fixtures	147,697	31,996	115,701	73,192	16,019	57,173
Computers	209,474	62,006	147,468	90,782	33,718	57,064
Asset under construction	-	-	-	601,834	-	601,834
	\$11,241,002	\$ 785,447	\$ 10,455,555	\$ 1,719,798	\$ 298,762	\$ 1,421,036

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

6. MINERAL PROPERTIES

	Balance January 1, 2006	Additions 2006	Balance December 31, 2006	Additions 2007	Balance December 31, 2007
Production Properties					
Brazil					
Duas Barras Mine					
Acquisition Cost	\$ 33,899	\$ -	\$ 33,899	\$ 639,331	\$ 673,230
Exploration expenditures	1,330,015	2,036,388	3,366,403	3,554,307	6,920,710
Amortization	-	-	-	(586,630)	(586,630)
	1,363,914	2,036,388	3,400,302	3,607,008	7,007,310
Chapada Mine					
Acquisition Cost	-	-	-	8,364,189	8,364,189
Amortization	-	-	-	(38,852)	(38,852)
	-	-	-	8,325,337	8,325,337
Exploration Properties					
Brazil					
Chapada Exploration Property					
Acquisition Cost	-	-	-	67,072,261	67,072,261
Exploration expenditures	-	-	-	21,369	21,369
	-	-	-	67,093,630	67,093,630
Brauna Property					
Acquisition Cost	411,000	-	411,000	5,540,664	5,951,664
Exploration expenditures	63,316	1,309,618	1,372,934	2,382,459	3,755,393
	474,316	1,309,618	1,783,934	7,923,123	9,707,057
Aroeira Area					
Acquisition Cost	-	111,710	111,710	57,548	169,258
Pimenta Bueno Property					
Acquisition Cost	-	265,311	265,311	-	265,311
Exploration expenditures	2,315,736	1,194,647	3,510,383	1,295,146	4,805,529
	2,315,736	1,459,958	3,775,694	1,295,146	5,070,840
Canada					
Coronation Gulf Property ⁽¹⁾					
Exploration expenditures	-	1,396,460	1,396,460	(1,396,460)	-
	-	1,396,460	1,396,460	(1,396,460)	-
Hotish Mountain Property					
Acquisition Cost	14,500	(14,500)	-	-	-
Exploration expenditures	431,110	(431,110)	-	-	-
	445,610	(445,610)	-	-	-
Alberta Area					
Exploration expenditures	-	-	-	173,730	173,730
Central African Republic					
CAR-Haute Kotto Property					
Exploration expenditures	340,473	(340,473)	-	-	-
Total Production Properties	1,363,914	2,036,388	3,400,302	11,932,345	15,332,647
Total Exploration Properties	3,576,135	3,491,663	7,067,798	75,146,717	82,214,515
Total Mineral Properties	\$ 4,940,049	\$ 5,528,051	\$ 10,468,100	\$ 87,079,062	\$ 97,547,162

⁽¹⁾ Property written off included an additional \$254,441 of exploration expenditures incurred during 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

6. MINERAL PROPERTIES (CONTINUED)

BRAZILIAN PROPERTIES

(a) Duas Barras

The Duas Barras mine is an alluvial diamond deposit located 150 kilometres north of the town of Diamantina in the state of Minas Gerais, Brazil. The Mining Licence covers an area of 170.89 hectares along a five kilometre length of the Jequitinhonha River.

In January 2005, VBM entered into an option agreement to acquire a 70% interest in the Duas Barras property from Mineração Marly Ltda. ("Marly"). Under the agreement, should VBM exercise the option, it would be required to pay US\$150,000 to Marly within 10 days of Marly assigning all rights, title and interest in the Mineral Rights of the property to the joint venture to be subsequently formed. VBM would also provide to the joint venture use of equipment and advances of working capital with an aggregate value of US\$1,500,000. Marly also granted VBM the option to acquire its 30% interest in the joint venture at any time in return for a payment of US\$1,000,000. In addition, the agreement provided for a royalty to be paid to the owner of the surface rights of the Duas Barras property in the amount of 6% of gross sales revenues.

On December 22, 2005 the Company exercised its option to acquire the 70% interest in the Duas Barras property. On January 31, 2006 this interest was increased to 75% by an advance payment of US\$50,000 to Marly.

By an agreement dated November 24, 2006 the Company exercised its option to acquire the remaining 25% interest in accordance with the terms of the original agreement. Payment terms of the full consideration of US\$1,100,000 are as follows:

- US\$150,000 to be paid within 10 days after the issue of a permanent Licence of Operation by the Minas Gerais State Environmental Authority ("FEAM");
- US\$200,000 to be paid within 5 days after Marly's submission of an application to the Departamento Nacional de Produção Mineral ("DNPM") for the assignment of the Duas Barras Mining Licence to VBM's subsidiary Montes Claros;
- US\$400,000 to be paid within 10 days after the DNPM's approval and registration of the Duas Barras Mining Licence in the name of Montes Claros and the issue of a permanent Licence of Operation by FEAM; and
- US\$350,000 to be paid within 10 days after the sale of the first diamond production from the Duas Barras deposit.

In February 2007, a temporary Licence of Operation was granted by FEAM, which, together with the Mining Licence, allows Montes Claros, as operator, to commence mining operation. In February 2007, Marly submitted an application for the assignment of the Mining Licence to Montes Claros, and US\$200,000 was paid to Marly in the same month. Subsequent to year end, following the sale of its first diamond production from Duas Barras, US\$350,000 was paid to Marly.

Commissioning of the Duas Barras mine commenced in May 2007 and commercial production was commenced 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

6. MINERAL PROPERTIES (CONTINUED)

(b) Chapada

The Chapada mine is located in the state of Mato Grosso, about 80 kilometres north east of the state capital of Cuiabá. The mine covers two tenements, Quilombo and Peba Lagoinha, over an area of 15 km², and contains a diamond recovery processing plant. The Company holds exploration licences for seven tenements, covering an additional 270 km² within a 30 km radius of the processing plant.

The Chapada mine has been in production since June 2006, and the mine, together with the surrounding tenements, was acquired by the Company through the Elkedra acquisition in November 2007. (See Note 3).

(c) Braúna

The Braúna property is located in the state of Bahia, Brazil and is comprised of three exploration concessions, covering an area of approximately 4,910 hectares. It encompasses 17 known kimberlite occurrences consisting of four pipes associated with an extensive kimberlite dyke system.

The Company acquired a 60% interest in the Braúna property in August 2005 under the terms of a purchase agreement with Majescor. Pursuant to a joint venture agreement dated October 31, 2005 provided that the Company's Brazilian subsidiary VBM would own 60% of the joint venture with Majescor owning 40%. Under the joint venture agreement the Company was appointed as manager of operations and was paid a fee of 10% of exploration expenditures incurred in accordance with the adopted exploration budget. In September 2006, Cajueiro became the joint venture company owning the Braúna property, with Cajueiro owned as to 60% by VBM and 40% by Majescor.

On March 1, 2007, by an agreement with Majescor, the Company purchased the remaining 40% of Cajueiro. (See Note 3).

(d) Aroeira Area

In June 2006, the Company entered into an agreement with De Beers Brasil Ltda. ("De Beers") to acquire at a cost of US\$100,000 De Beers' exploration dataset for the Traira diamond area in northern Mato Grosso state, together with a claim owned by De Beers in the area covered by the dataset. As a result of environmental restrictions, De Beers was unable to transfer ownership of the claim to the Company. In November 2006, De Beers offered and the Company accepted an additional dataset for the Aroeira diamond area in Bahia state, to offset the inability to transfer ownership of the Traira claim to the Company. The Aroeira dataset covers an area of approximately 165,000 hectares and includes exploration results from 645 samples.

(e) Pimenta Bueno

The Pimenta Bueno property, located in the southeastern part of the state of Rondonia, Brazil, consists of exploration permits and mining concessions in two blocks, covering an area of approximately 247,085 hectares in total. Exploration is being conducted for the discovery of diamond bearing kimberlites which can be economically developed.

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

6. MINERAL PROPERTIES (CONTINUED)

In June 2005, Rio Tinto Desenvolvidimentos Minerais Ltda. ("Rio Tinto") exercised its option under a 2003 agreement to acquire interests in the Southern and Northern Blocks. Pursuant to the agreement, Rio Tinto would acquire a 51% interest in the Southern Block by spending a total of US\$5,000,000 on exploration over a three year period. Rio Tinto would also acquire a 51% interest in the Northern Block by spending a total of US\$7,500,000 over three years. In 2006, Rio Tinto's expenditures on the Southern Block exceeded the amount on a cumulative basis and hence earned a 51% interest in the Southern Block.

In June 2006, the Company also acquired additional geological data in respect of the Pimenta Bueno property from De Beers at a cost of US\$237,500.

In June 2007, Vaaldiam restructured its 2005 agreement with Rio Tinto whereby Rio Tinto transferred operatorship and 100% ownership of the Southern Block of the Pimenta Bueno diamond project to Vaaldiam. Rio Tinto retained an option to back-in to a 60% interest in any kimberlite pipe that meets Rio Tinto's development criteria. In the event Rio Tinto decide to develop one of these kimberlite pipes they would complete and fully fund a feasibility study. Should the feasibility study meet their criteria and Rio Tinto decide to develop a mine Rio Tinto would fully fund the construction of the mine and Vaaldiam would retain a 40% equity interest in cash flow from the mine after repayment of Vaaldiam's share of construction funding. In such a case, Vaaldiam would not need to raise development equity funding.

Rio Tinto's back in rights would be triggered when Vaaldiam recovers at least 200 carats of commercial sized diamonds from a bulk sample on any kimberlite in the Southern Block. Should Rio Tinto progress through to mine construction, it would provide Vaaldiam's 40% share of construction costs which would be recovered by Rio Tinto from future cash flows on a non-recourse to Vaaldiam basis. Should Rio Tinto not exercise its option, Vaaldiam would continue to own 100% of the relevant kimberlite. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam. Vaaldiam continues to retain 100% ownership of the 40,000 hectare Northern Block of the Pimenta Bueno property.

(f) Catalão

At the same time when the Pimenta Bueno agreement was restructured with Rio Tinto, Vaaldiam acquired the diamond-bearing Catalão kimberlite pipes from Rio Tinto. The Catalão kimberlites are located in the State of Goias, about 280 kilometres south of Brazil's capital Brasilia. The Catalão property totals precisely 2,000 hectares.

Under the terms of the acquisition agreement for the Catalão Property, Vaaldiam will hold 100% ownership of the property, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe that has been bulk sampled, resulting in the recovery of at least 200 carats of commercial sized diamonds. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in cash flow from the mine without the need to raise development equity funding. This non-recourse loan would be repaid to Rio Tinto from a portion of Vaaldiam's share of cash flow from the deposit. Should Rio Tinto not exercise its option then Vaaldiam would continue to own 100% of that kimberlite deposit to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

6. MINERAL PROPERTIES (CONTINUED)

CANADIAN PROPERTIES

(g) Coronation Gulf

The Coronation Gulf property, which covers an area of 91,400 hectares and is situated 500 kilometres north of Yellowknife and 50 kilometres south of the Coronation Gulf, is owned 100% by a wholly-owned subsidiary of Ashton Mining of Canada Inc. ("Ashton").

In July 2006, the Company reached an agreement with Ashton under which the Company had an exclusive option to acquire a 40% joint venture interest in the Coronation Gulf property by spending a total of \$3.0 million on exploration of the properties before December 31, 2008, of which \$1.0 million must have been spent by December 31, 2006. In addition, the agreement required that the Company issue Ashton a total of 195,000 of its common shares over the three-year term of the option, and provides for a 1.5% royalty payment on the gross proceeds from the sale of diamonds produced from the Coronation Gulf property.

In 2006, the Company collected a 100 tonne mini-bulk sample from the surface of the property and in April 2007, following the analysis of sampling results, the decision was made to terminate the option on the property and all expenditures incurred up to March 2007, amounting to \$1,514,753, were written off in the first quarter. Additional amounts of \$136,148 were expended during the remainder of the year, and were written off throughout the year, giving rise to a total of \$1,650,901 being written off in 2007. No shares were issued to Ashton under the agreement.

(h) Hotish Mountain

The Hotish Mountain property covers approximately 50,000 hectares about 100 kilometres south of the diamondiferous Renard kimberlite cluster.

In April 2005, the Company negotiated an option agreement with Dios Exploration Inc. ("Dios") whereby the Company could earn a 51% interest in the Hotish Mountain property by incurring exploration expenditures of \$2,000,000 by April 2008. In addition, the Company was required to issue a total of 100,000 common shares to Dios. Of these, 25,000 shares were issued in 2005. Following a 30 day extension by Dios to review the sampling results, the Company notified Dios in May 2006 that, based on the results to date, the Company would not be undertaking further exploration of the property.

To the end of March 2006, \$439,160 had been spent on the exploration of the Hotish property, in addition to which \$14,500 of option expenditures had been made for total expenditures of \$453,660, which amount was written off effective March 31, 2006. In April 2006, an additional \$2,683 was expended and written off, giving rise to a total of \$456,343 being written off in 2006.

(i) Alberta properties

In October 2007, the Company entered into an option agreement with Great Western to acquire an interest in Great Western's Alberta properties of Utikuma, Peerless Lake, Calling Card, Calling Card North and Calling Card/La Biche, and Birch Mountain. Under the terms of the agreement, the Company spent \$173,730 on the properties before December 31, 2007. In return, should the properties be developed to production, Vaaldiam would receive a 1% gross sales royalty on the sale of diamonds produced from the properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

6. MINERAL PROPERTIES (CONTINUED)

CENTRAL AFRICAN REPUBLIC PROPERTIES

(j) CAR-Haute Kotto Property

In March 2004, the Company was granted a 2,000 square kilometre reconnaissance permit in the Haute Kotto district of southeastern Central African Republic. The area is prospective for both kimberlite and alluvial diamond deposits.

In February 2005, the Company was granted an exploration permit covering an area of 682.1 square kilometres within the area of the reconnaissance permit. The exploration permit is valid for a period of three years and is subject to a minimum expenditure on exploration of approximately \$35,000 per year.

Following a review of the Haute Kotto property and the alternative uses for the cash which would otherwise be required to be spent in the future on the property, the Company decided that its cash resources should be concentrated on the Company's more advanced projects. As a result, the Company wrote off the exploration expenditures to December 31, 2006 associated with the properties in the amount of \$709,335.

AUSTRALIAN PROPERTIES

(k) Queensland and Northern Territory Properties

The Company, through its wholly owned subsidiary Elkedra, holds exploration permits in four Queensland tenements, namely, Cravens Peak, Cravens Peak North, Seymour River, and Thornton River. Through an agreement with Uramet Minerals Ltd. ("Uramet"), a company listed on the ASX and a former subsidiary of Elkedra, Uramet holds the non-diamond exploration and mining rights to these properties, while Elkedra holds the diamond exploration and mining rights on several Uramet owned tenements in the Northern Territory, namely, Dulcie, Field River, Marqua, Central Mount Stuart, Mount Skinner, Mount Skinner East, Harper Springs, and Prince Henry.

7. INVESTMENT

In March, the Company acquired 1,111,112 Units of 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 December 31, 2007, the closing price of Great Western's common shares on the TSX Venture Exchange was \$0.22, giving rise to an other comprehensive loss of \$250,000.

8. BRAZILIAN TAXES AND CONTRIBUTIONS RECOVERABLE

Brazilian taxes and contributions recoverable consists of recoverable credits for ICMS, PIS and COFINS. 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 PIS and COFINS taxpayers may recover input contribution charged on certain good and services. In all 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, amongst other methods, as a deduction from output tax charged on the goods sold, and in the case of PIS and COFINS, can be set off against federal withholding taxes and income taxes.

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

9. RELATED PARTY TRANSACTIONS

Transactions with related parties, all of which are recorded at the exchange amount which is the amount of consideration agreed upon by the related parties, are as follows:

(a) Amounts Paid or Payable

	2007	2006
Management and consulting fees paid or payable to a company controlled by the:		
President and Chief Executive Officer	\$ -	\$ 37,500
Vice President, Business Development	18,001	-
Vice President, Operations	18,001	-
	⁽ⁱ⁾ \$ 36,002	⁽ⁱⁱ⁾ \$ 37,500

During the twelve months ended December 31, 2007, VBM paid \$40,729 for accounting and administration services to a major shareholder.

(b) Loans

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 the amount, together with interest thereon, was repaid on December 20, 2007.

(c) Investment

In March 2007, by means of a private placement, the Company invested \$500,000 in units of Great Western, which had amongst its major shareholders a subsidiary of Vaaldiam's major shareholder.

10. ASSET RETIREMENT OBLIGATIONS

Any restoration, rehabilitation and environmental costs incurred at the Duas Barras and Chapada mines during the life of the mines are expensed immediately as rehabilitation is incurred on an ongoing basis. The asset retirement obligations relate to the closure and reclamation costs associated with the Duas Barras and Chapada mines and associated processing facilities. These are calculated as the net present value of the estimated future cash flows totalling \$657,207 and that are required to satisfy the obligations and are discounted using a credit adjusted risk-free rate of 8.2%.

The following shows the analysis of the asset retirement obligations:

	2007	2006
Balance, January 1	-	-
Additions to closure and reclamation costs during the year	\$ 370,723	-
Accretion incurred during the year	6,664	-
Expenditures during the year	-	-
Balance, December 31	\$ 377,387	-

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

11. SHARE CAPITAL

Authorized – Unlimited number of authorized shares, no par value

(a) Common Shares

	Notes	Shares	Amount
Balance, January 1, 2006		65,819,002	\$ 13,315,518
Warrants exercised	(i)	6,156,381	4,675,375
Allocated from warrants	11(b)	-	1,147,751
Repayment of share purchase loans to directors	9	-	133,284
Interest received or accrued on share purchase loans	9	-	10,261
Private placements (net of share issue costs of \$995,326 including brokers' warrants of \$277,333 and future income tax adjustment of \$180,600)	(ii), 11(b)	8,253,969	6,324,073
Exercise of options	(iii)	1,220,000	578,500
Allocated from options	11(c)	-	252,816
Balance, December 31, 2006		81,449,352	\$ 26,437,578
Shares issued for the purchase of Cajueiro (net of expenses for share issue of \$4,256) (Note 3)	3, (iv)	1,733,102	1,555,536
Exercise of options	(vii)	18,750	5,438
Shares issued for the purchase of Elkedra (net of expenses for share issue of \$71,392)	3, (vi)	55,622,557	48,717,316
Private placements (net of share issue costs of \$5,208,515 including brokers' warrants of \$307,125 and deemed cost of warrant of \$3,027,375)	(v)	29,250,000	21,116,485
Repayment of share purchase loan to director	9	-	100,000
Interest received on share purchase loan	9	-	1,750
Balance, December 31, 2007		168,073,761	\$ 97,934,103

(i) During 2006 the following warrants were exercised:

Date of Issue	Warrants Exercised	Exercise Price	Proceeds
September 15, 2004	301,602	\$ 0.40	\$ 120,641
June 16, 2005	5,209,333	0.80	4,167,466
June 16, 2005	645,446	0.60	387,268
	6,156,381		\$ 4,675,375

(ii) On February 9, 2006, the Company closed a bought-deal private placement offering of Common Share and Flow-Through Share Special Warrants for aggregate gross proceeds of \$7,500,000. The offering, which was comprised of 7,777,778 Common Share Special Warrants issued at a price of \$0.90 and 476,191 Flow-Through Share Special Warrants issued at a price of \$1.05.

On March 24, 2006, following the issue of a final prospectus by the Company, each Common Share Special Warrant and each Flow-Through Share Special Warrant was automatically exercised into one Common Share and one Flow-Through Common Share of the Company respectively. In respect of the Flow Through Common Share, a future income tax recovery of \$180,600 was recognized.

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

11. SHARE CAPITAL (CONTINUED)

As part of the financing, the Company issued 495,238 common share purchase warrants to the agents of the private placement. Each warrant was exercisable for one common share of the Company at a price of \$0.90 at any time until February 9, 2007. A value of \$277,333 was allocated to the warrants.

- (iii) During 2006, the following options were exercised:

Options Exercised	Exercise Price	Proceeds
25,000	\$ 0.29	\$ 7,250
795,000	0.50	397,500
275,000	0.45	123,750
125,000	0.40	50,000
<u>1,220,000</u>		<u>\$ 578,500</u>

- (iv) During the first quarter of 2007, as part of the settlement for the acquisition of Majescor's 40% share of Cajueiro, the Company issued 1,733,102 common shares to Majescor. (See Note 3).
- (v) 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. Following the closing of the Elkedra transaction on November 20, 2007, the remaining 75% that was deposited in escrow was released to the Company. 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.
- (vi) On November 20, 2007, in settlement of the acquisition of Elkedra, the Company issued 55,622,557 common shares to existing Elkedra shareholders. (See Note 3).
- (vii) During 2007, the following options were exercised:

Options Exercised	Exercise Price	Proceeds
18,750	\$ 0.29	\$ 5,438

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

11. SHARE CAPITAL (CONTINUED)**(b) Common Share Purchase Warrants**

	Notes	Warrants	Amounts
Balance, January 1, 2006		6,156,381	\$ 1,147,751
Broker Warrants issued in respect of private placement	11(a)(i)	495,238	277,333
Exercise of purchase warrants		(6,156,381)	(1,147,751)
Balance, December 31, 2006		495,238	\$ 277,333
Issued in respect of private placement	11(a)(v)	14,625,000	3,027,375
Broker Warrants issued	11(a)(v)	1,755,000	307,125
Compensation Warrants issued	11(a)(v)	877,500	-
Issued in respect of Elkedra acquisition	3	4,567,334	713,232
Expired		(495,238)	(277,333)
Balance, December 31, 2007		21,824,834	\$ 4,047,732

The following is a summary of unexercised warrants, dates of issue, exercise prices and expiry dates as at December 31, 2007:

Number Outstanding	Date of Issue	Exercise Price	Expiry Date
1,755,000	August 15, 2007	\$ 0.90	February 15, 2009
14,625,000	August 15, 2007	1.20	August 15, 2009
877,500	August 15, 2007	1.20	August 15, 2009
173,334	November 20, 2007	0.66	September 3, 2008
3,250,000	November 20, 2007	0.58	September 30, 2008
1,040,000	November 20, 2007	1.40	May 31, 2010
104,000	November 20, 2007	1.89	May 31, 2010
21,824,834			

(c) 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.

(d) Stock Options

The Company maintains a stock option plan for directors, officers, employees and consultants of the Company. This plan was amended in June 2005, and under the amended plan, which requires approval by the shareholders on an annual basis, the maximum number of shares which may be issued under the plan cannot exceed 10% of the issued and outstanding common shares of the Company at the time of grant of any option. All options vest immediately upon issue.

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

11. SHARE CAPITAL (CONTINUED)

	Number	Weighted Av. Price
Options outstanding as at January 1, 2006	3,388,750	\$ 0.49
Issued during the year	2,230,000	0.78
Exercised during the year	(1,220,000)	0.47
Options outstanding as at December 31, 2006	4,398,750	\$ 0.64
Issued during the year	2,675,000	0.85
Issued in respect of Elkedra acquisition	1,742,000	0.75
Exercised during the year	(18,750)	0.29
Options outstanding as at December 31, 2007	8,797,000	\$ 0.73

Exercise Price	Outstanding December 31, 2007	Weighted Av. Life (Years)
\$ 0.40	40,000	0.01
0.45	525,000	0.10
0.50	1,330,000	0.14
0.50	100,000	0.01
0.50	55,000	0.02
0.50	208,000	0.05
0.58	650,000	0.14
0.75	2,105,000	0.73
0.85	100,000	0.03
0.85	2,675,000	1.24
0.91	650,000	0.14
0.97	50,000	0.02
0.99	234,000	0.05
1.37	75,000	0.03
	8,797,000	2.71

During the year ended December 31, 2007, the Company recognized stock based compensation expense of \$1,495,325 (2006: \$1,418,100) utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

	2007	2006
Risk-free interest rate	3.9%	3.9% - 4.3%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	80.7%	77.5% - 80.7%
Expected life of options	5 years	5 years

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

11. SHARE CAPITAL (CONTINUED)

The fair value of the options outstanding are as follows:

	Number	Stock Option Value
Options outstanding as at January 1, 2006	3,388,750	\$ 703,626
Issued during the year	2,230,000	1,418,100
Exercised during the year	(1,220,000)	(252,816)
Options outstanding December 31, 2006	4,398,750	\$ 1,868,910
Issued during the year	4,417,000	1,917,409
Exercised during the year	(18,750)	-
Options outstanding December 31, 2007	8,797,000	\$ 3,786,319

As at December 31, 2007, the remaining number of common shares available for issuance under the stock option plan is 8,010,376.

12. SUMMARY OF SECURITIES AS AT DECEMBER 31, 2007

Common shares outstanding	168,073,761
Unexercised options to acquire common shares	8,797,000
Unexercised warrants to acquire common shares	21,824,834
Fully diluted shares outstanding	198,695,595

13. LOSS PER SHARE

For the purpose of the determination of net loss per share, the basic and diluted weighted average number of common shares outstanding for the year ended December 31, 2007 was 92,448,150 (2006: 79,188,040 – net of 250,000 shares issued related to share purchase loans). The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding warrants and options since to do so would reduce the loss per share and would therefore be anti-dilutive.

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

14. INCOME TAXES

The Company is subject to income taxes in Canada, United Kingdom, Australia and Brazil.

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 36.12% (2006 – 36.12%) to income before income taxes as follows:

	2007	2006
Expected income tax recovery using statutory income tax rates	\$ 2,132,000	\$ 1,216,000
Increase (decrease) in tax recovery resulting from:		
Adjustment for different tax rates in Brazil	(20,000)	-
Stock based compensation	(540,000)	(461,000)
Stock issuance costs	273,000	141,000
Expiry of Warrants	(50,000)	-
Write down of exploration properties	(596,000)	(421,000)
Change in valuation allowance	(738,540)	(294,400)
Future income tax recovery	\$ 460,460	\$ 180,600

The tax effects of temporary differences that give rise to the future tax liabilities as at December 31, 2007 and 2006 are as follows:

Future Tax Assets (Liabilities)

	2007	2006
Canada		
Non-capital losses	\$ 1,792,000	\$ 1,306,000
Property, plant and equipment	52,000	50,000
Stock issuance costs	657,000	430,000
Intangible assets	28,000	35,000
Mineral properties	572,000	428,000
Unrealized foreign exchange losses	12,000	-
Investment in shares	73,000	-
Brazil		
Non-capital losses	2,950,000	-
Property, plant and equipment	(1,075,000)	(87,000)
Mineral properties	(27,861,000)	-
Asset retirement obligations	128,000	-
	(22,672,000)	2,162,000
Valuation allowances	(3,185,000)	(2,162,000)
Net Future Tax Assets (Liabilities)	\$ (25,857,000)	\$ -

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

14. INCOME TAXES (CONTINUED)**Losses and Tax Reduction Amounts****Canada**

The Company has non-capital losses for income tax purposes in Canada of approximately \$6,181,000 which may be carried forward to reduce taxable income of future years. No provision has been made in these financial statements of the potential income tax savings on the application of these losses. These losses, if unapplied, would expire in the future as follows:

2008	\$	80,000
2009		127,000
2010		34,000
2014		657,000
2015		1,125,000
2026		1,336,000
2027		2,822,000
	\$	6,181,000

The Canadian resource pools, which may be carried forward indefinitely, consist of the following amounts:

Cumulative Canadian Exploration Expenditures	\$	784,000
Cumulative Canadian Development Expenditures		665,000
Foreign Exploration and Development Expenditures		643,000
	\$	2,092,000

Brazil

The Company has non-capital losses for income tax purposes in Brazil of approximately \$8,676,000 which may be carried forward to reduce taxable income of future years. The future tax asset of predominantly all of these losses has been recorded to offset the future tax liability as a result of the business combination of Vaaldiam and Elkedra during the year. The losses can be used to offset up to 30% of each year's fiscal profits and they can be carried forward indefinitely.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, sundry receivables and prepayments, and accounts payable and accrued liabilities on the consolidated balance sheets approximate fair values due to the short-term nature of these financial instruments.

16. FLOW-THROUGH SHARES AND COMMITMENTS

As at December 31, 2007, the Company has no obligations with respect to eligible Canadian Exploration Expenditures (2006: \$429,300). Restricted cash represents cash held in a separate bank account which is to be spent on eligible flow-through activities.

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

17. SEGMENTED INFORMATION

The Company operates in the diamond exploration and mining industry in Brazil, Canada, and Australia. The Company has three reportable segments: the Duas Barras mine the Chapada mine, and corporate and other. The corporate segment includes the Company's administrative, business development and exploration activities. Prior to 2007, the Company has only one reportable segment. Capital expenditures on the respective properties are disclosed in Note 6.

2007	Duas Barras	Chapada	Corporate and Other	Total
Revenue	\$ 1,030,407	\$ 368,896	\$ -	\$ 1,399,303
Expenses:				
Cost of sales	480,249	447,691	-	927,940
Mining infrastructure and administration	717,832	138,153	-	855,985
Corporate and general	-	-	2,627,591	2,627,591
Stock-based compensation	-	-	1,495,325	1,495,325
Amortization	100,718	6,216	233,818	340,752
Foreign exchange gain	-	-	(249,223)	(249,223)
	1,298,799	592,060	4,107,511	5,998,370
Operating Loss	(268,392)	(223,164)	(4,107,511)	(4,599,067)
Additions to Property Plant and Equipment	1,435,861	-	307,793	1,793,654
Total assets	\$ 12,412,803	\$ 83,410,363	\$ 27,430,657	\$ 123,253,823

18. SUPPLEMENTARY CASH FLOW INFORMATION

The following non-cash transactions are not reflected in the consolidated statements of cash flow:

	2007	2006
Issuance of shares regarding acquisitions	\$ 50,272,852	\$ -
Agents' warrants issued regarding private placements	307,125	277,333
Changes in accounts payable and accrued liabilities related to investing activities	\$ 49,510	\$ 1,128,006

19. COMMITMENTS AND CONTINGENCIES**Lease Commitments**

Under the terms of the Company's leases, the Company is committed to pay a total amount of \$313,338 over a period of between 4 months to 30 months in respect of property leases in both Brazil and Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

20. SUBSEQUENT EVENTS

(a) Options Granted

On February 26, 2008, 6,920,000 options to acquire common shares were granted to directors, officers, consultants and employees. Each option entitles the holder to purchase a common share of the Company at a price of \$0.45 on or prior to February 26, 2013.

(b) Great Western Acquisition

Pursuant to the extension of the offer to Great Western shareholders to January 2, 2008 (see Note 3), the Company took up 82,535,960 Great Western shares tendered as of that date in exchange for 37,141,180 Vaaldiam shares, and proceeded to effect a subsequent acquisition transaction to acquire Great Western shares not tendered to the Offer. A Great Western Shareholder Special Meeting was held on February 27, 2008 and a resolution passed approving the arrangement whereby Vaaldiam will acquire the issued share capital of Great Western which it did not already own. Should all the remaining shareholders of Great Western exchange their shares for Vaaldiam shares, approximately 8,553,657 additional shares would be issued. A final order was obtained from the Court of Queen's Bench for Saskatchewan on March 6, 2008, the arrangement became effective on March 10, 2008 and Great Western was delisted on March 11, 2008.

On February 27, 2008, Great Western closed a private placement consisting of 8,000,000 flow through shares priced at \$0.25 for aggregate gross proceeds of \$2,000,000. The agent received a cash commission of 7.5% of the gross proceeds as well as 600,000 broker warrants, each entitling the agent to acquire one common share of Great Western at a price of \$0.25 until February 27, 2009.

(c) Normal Course Issuer Bid

In January 2008, the Company announced its intention to repurchase through a Normal Course Issuer Bid up to 7,621,607 common shares of Vaaldiam, being approximately 5% of its public float. The actual number to be purchased, and the timing of the purchase will be determined by the management of the Company, and will be during a 12 month period commencing February 1, 2008 and ending January 31, 2009. All common shares purchased pursuant to the bid will be purchased for cancellation.