Vaaldiam Resources Ltd.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008

Notice to Reader

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, notice is hereby given that the accompanying comparative interim consolidated financial statements of Vaaldiam Resources Ltd. ("the Company" or "Vaaldiam") for the three months ended March 31, 2008 and 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. The accompanying interim consolidated financial statements are the responsibility of the Company's management and include the selection of appropriate accounting principles, judgments and estimates that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

Vaaldiam Resources Ltd.

Consolidated Balance Sheets
(Unaudited)

Assets

	Notes	As at March 31, 2008	As at December 31, 2007
Current Assets			
Cash and cash equivalents		$ 4,441,248	$ 10,928,569
Restricted cash	14	1,846,161	-
Accounts receivable		725,165	-
Inventories	4	2,039,200	2,406,024
Brazilian taxes and contributions recoverable		365,597	262,449
Sundry receivables and prepayments		995,796	328,926
		10,413,167	13,925,968
Property, plant and equipment		11,234,010	10,455,555
Mineral properties	5	129,880,962	97,547,162
Investment		-	250,000
Brazilian taxes and contributions recoverable		922,223	807,145
Other assets		15,018	267,994
		$ 152,465,380	$ 123,253,824

Liabilities and Shareholders' Equity

	Notes	March 31, 2008	December 31, 2007
Current Liabilities			
Accounts payable and accrued liabilities		$ 2,737,872	$ 2,076,522
		2,737,872	2,076,522
Asset retirement obligations	8	413,966	377,387
Future income tax liabilities	12	32,664,493	25,856,571
Shareholders' equity			
Common shares	9(a)	122,919,103	98,329,103
Common share purchase warrants	9(b)	3,748,722	3,652,732
Contributed surplus		277,333	277,333
Stock options	9(c)	5,832,082	3,786,319
Deficit		(16,128,191)	(10,852,143)
Accumulated other comprehensive loss	9(d)	-	(250,000)
		116,649,049	94,943,344
		$ 152,465,380	$ 123,253,824

Basis of presentation	2
Commitments and contingencies	14,17

See accompanying notes to consolidated financial statements.

Vaaldiam Resources Ltd.

Consolidated Statements of Operations and Deficit
For the Three Months Ended March 31 (Unaudited)

	Notes	2008	2007
Net sales		$ 3,510,861	$ -
Cost of sales		3,396,080	-
Mine infrastructure and administration		851,259	-
Mine operating loss		(736,478)	-
Corporate and general		1,206,473	440,050
Stock-based compensation	9(c)	1,351,628	1,466,160
Amortization		88,177	53,433
Operating loss	15	(3,382,756)	(1,959,643)
Foreign exchange loss	12	(1,764,782)	(15,031)
Interest income		59,904	94,306
Write-off of exploration properties	5	(188,414)	(1,514,753)
Net loss before minority interest		(5,276,048)	(3,395,121)
Minority interest		-	(598)
Net loss for the period		(5,276,048)	(3,395,719)
Deficit, beginning of period		(10,852,143)	(5,407,753)
Deficit, end of period		$ (16,128,191)	$ (8,803,472)
Basic and diluted loss per common share		$ (0.03)	$ (0.04)

Consolidated Statements of Comprehensive Loss
For the Three Months Ended March 31 (Unaudited)

	Notes	2008	2007
Net loss for the period		$ (5,276,048)	$ (3,395,719)
Other comprehensive income:			
Reversal of unrealized loss on investment		250,000	-
Other comprehensive income		250,000	-
Comprehensive loss for the period		$ (5,026,048)	$ (3,395,719)

See accompanying notes to consolidated financial statements.

Vaaldiam Resources Ltd.

Consolidated Statements of Cash Flows
For the Three Months Ended March 31 (Unaudited)

	Notes	2008	2007
Operating Activities			
Net loss for the year		$ (5,276,048)	$ (3,395,719)
Amortization and depreciation		776,235	53,433
Accretion expense	8	7,489	-
Write-off of exploration properties	5	188,414	1,514,753
Stock-based compensation	9(c)	1,351,628	1,466,160
Unrealized foreign exchange loss (gain)		1,868,798	-
Minority interest		-	598
		(1,083,484)	(360,775)
Change in non-cash components of working capital			
Increase in accounts receivable		(725,165)	-
Increase in sundry receivables and prepayments		(289,188)	(6,948)
Increase in sales taxes recoverable		(218,226)	-
Decrease in inventories		147,646	-
Decrease in accounts payable and accrued liabilities		(782,038)	(177,091)
		(1,866,971)	(184,039)
Cash used in operating activities		(2,950,455)	(544,814)
Investing Activities			
Purchase of property, plant and equipment		(792,479)	(1,052,059)
Mineral exploration expenditures		(2,124,305)	(1,068,571)
Acquisition of Elkedra	3	(62,636)	-
Acquisition of Great Western	3	(550,974)	-
Acquisition of Cajueiro	3	-	(2,265,830)
Investments		-	(500,000)
Increase in other assets		90,079	(130,502)
Cash used in investing activities		(3,440,315)	(5,016,962)
Financing Activities			
Proceeds from issuance of common shares (net of share issue costs) and repayment of notes receivable	9(a)	(75,694)	97,494
Repurchase of common shares	9(a)	(20,857)	-
Cash provided by financing activities		(96,551)	97,494
Changes in cash and cash equivalents		(6,487,321)	(5,464,282)
Cash and cash equivalents, beginning of period		10,928,569	12,318,783
Cash and cash equivalents, end of period		$ 4,441,248	$ 6,854,501
Cash and cash equivalents are comprised of the following:			
Cash		$ 1,342,866	$ 2,069,818
Short-term investments		3,098,382	4,784,683
		$ 4,441,248	$ 6,854,501

Supplementary cash flow information (Note 16)
See accompanying notes to consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2008

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 mining operations and in the investigation, acquisition, exploration and development of mineral properties. It operates 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.

These unaudited consolidated interim financial statements have been prepared on the basis of going concern. The ability of the Company to continue as a going concern and the recoverability of the amounts shown as assets is dependent on the ability of the Company to achieve profitable operations, to raise additional debt or equity financing, or to curtail operations. Failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("CGAAP") for interim financial statements and do not contain all 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 years ended December 31, 2007 and 2006.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:
- Vaaldiam do Brasil Mineração Ltda. ("VBM");
- Mineração Montes Claros Ltda. ("Montes Claros");
- Elkedra Diamonds N.L. ("Elkedra");
- Chapada Diamonds Limited ("CDL");
- Chapada Brasil Mineração Ltda. ("CBM");
- Great Western Minerals Ltd. ("Great Western");
- Oleander Financial Inc. ("Oleander"); and
- Mineração Fortuna Ltda. ("Fortuna").

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

The unaudited interim financial statements for the three months ended March 31, 2008 and 2007 have been prepared using the same accounting policies as those used to prepare the most recent annual audited consolidated financial statements, except for the following:

(a) Changes in accounting policies:

(iii) Revenue Recognition

Revenue from the sale of gold produced as a by-product is recognized as a separate revenue stream at the time when the goods are received by the customer. This was changed from the previous year's policy of recognizing the sale of by-product as a reduction in cost of sales. This change has no impact on the prior year's financial statements as there has been no sale of gold to date.

2. BASIS OF PRESENTATION (CONTINUED)

(b) New Accounting Pronouncements:

(i) 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 enhances the disclosure requirements on the nature and extent of risks arising from financial instruments, and how these risks are managed. Section 3863 carries forward the presentation requirements from Section 3861. Effective January 1, 2008, the Company adopted these standards. Beyond additional disclosures, the adoption of these new pronouncements did not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 12.

(ii) Capital Disclosures (Section 1535)

Section 1535 establishes standards for disclosure 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. Effective January 1, 2008, the Company adopted these standards. Beyond additional disclosures, the adoption of these standards did not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 6.

(iii) 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. Effective January 1, 2008, the Company adopted the amendment to this section. Beyond additional disclosure, the adoption of this amendment did not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 1.

(iv) International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is assessing the impact of the conversion from CGAAP to IFRS on the consolidated financial statements and will develop a conversion implementation plan.

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.

3. BUSINESS ACQUISITIONS (CONTINUED)

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

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 $50,804,460, 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 $880,436 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		880,436
Purchase Price	$	50,804,460

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		75,466,029
Long-term debt		(8,771,848)
Future income taxes		(23,435,543)
Net identifiable assets	$	50,804,460

3. BUSINESS ACQUISITIONS (CONTINUED)

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.

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 January 2, 2008, pursuant to a takeover bid to acquire all of the outstanding shares of diamond explorer Great Western, a company then listed on the TSX-Venture Exchange, the Company took up 82,535,960 Great Western shares in exchange for 37,141,180 Vaaldiam shares at the takeover bid exchange ratio of 0.45 of a Vaaldiam common share per Great Western common share. The Company then 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, and an additional 8,553,657 shares were 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.

The purchase consideration for the Great Western transaction was $26,502,844, comprised of 45,694,837 Vaaldiam common shares valued at $24,675,212, 14,949,030 warrants and share options valued at $461,930, and $865,702 transaction costs.

The purchase price was calculated as follows:

Common shares issued (45,694,837 common shares at $0.54 per share)	$ 24,675,212
Fair value of 14,949,030 warrants and options issued	461,930
Cash paid for 1,111,112 Great Western shares	500,000
Transaction costs	865,702
Purchase Price	$ 26,502,844

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	3.1%-3.35%
Expected dividend yield	0.00%
Expected share price volatility	44.3%-63.0%
Expected life of warrants and options	0.3-4.1 years

3. BUSINESS ACQUISITIONS (CONTINUED)

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

Net working capital acquired	$	2,235,144
Property, plant and equipment		204,878
Mineral properties		28,999,084
Future income taxes		(4,936,262)
Net identifiable assets	$	26,502,844

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.

4. INVENTORIES

Inventories as at March 31, 2008 included rough diamonds, work in progress, as well as supplies inventory. Work in progress includes stockpile ores as well as gold and diamond concentrates. Ore in stock piles represents ore extracted from the mine awaiting further processing. Gold concentrates represent materials that are diverted to the gold circuit to be converted to a saleable form, while diamond concentrates represent materials that will be further sorted to extract rough diamonds.

		March 31, 2008		December 31, 2007
Rough diamonds	$	895,362	$	1,731,903
Stockpile ore		59,168		-
Diamond and gold concentrates		680,918		421,507
Supplies inventory		403,752		252,614
	$	2,039,200	$	2,406,024

5. MINERAL PROPERTIES

	Balance January 1, 2008	Additions 2008	Balance March 31, 2008
Production Properties			
Brazil			
Duas Barras Mine			
Cost	$ 7,593,940	$ -	$ 7,593,940
Amortization	(586,630)	(167,125)	(753,755)
	7,007,310	(167,125)	6,840,185
Chapada Mine			
Cost	8,364,189	347,802	8,711,991
Amortization	(38,852)	(171,029)	(209,881)
	8,325,337	176,773	8,502,110
Exploration Properties			
Brazil			
Chapada Exploration Property	67,093,630	102,214	67,195,844
Brauna Property	9,707,057	597,808	10,304,865
Ariquemes Property	-	15,696,160	15,696,160
Pimenta Bueno Property	5,070,840	286,738	5,357,578
Others	169,258	102,200	271,458
	82,040,785	16,785,120	98,825,905
Canada			
Candle Lake	-	13,958,779	13,958,779
Centennial	-	489,267	489,267
Other Saskatchewan Properties	-	661,266	661,266
Alberta Area Properties	173,730	429,720	603,450
	173,730	15,539,032	15,712,762
Total Production Properties	15,332,647	9,648	15,342,295
Total Exploration Properties	82,214,515	32,324,152	114,538,667
Total Mineral Properties	$ 97,547,162	$ 32,333,800	$ 129,880,962

In January 2008, as part of the acquisition of Great Western, the Company acquired the Ariquemes property in Rondônia, Brazil, the Candle Lake, Snowden and Centennial properties in Saskatchewan, Canada and Utikuma, Peerless Lake, Calling Card, Birch Mountain and Labiche in Alberta, Canada. Following the analysis of sampling results, the Birch Mountain land claim was allowed to lapse. In addition, the decision was made to terminate the second year purchase option on the Peerless Lake property. As a result, deferred expenditures incurred on these properties totalling $188,414 were written off during the quarter.

6. MANAGEMENT OF CAPITAL

The Company considers in its management of capital all components included in the shareholders' equity. Its objectives are to ensure that the Company continue to operate as a going concern in order to pursue the operation of its mine and the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issues new shares, seek debt financing, or acquire or dispose of assets. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

6. MANAGEMENT OF CAPITAL (CONTIUED)

Neither the Company nor any of its subsidiaries are subject to any other externally imposed capital requirements or debt covenants. There were no changes to the Company's approach to capital management during the three months ended March 31, 2008.

7. 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:

Amounts Paid or Payable

	Three months ended March 31	
	2008	2007
Management and consulting fees paid or payable to a company controlled by the:		
Vice President, Business Development	$ 55,692	$ -
Vice President, Operations	55,692	-
	[1] $ 111,384	$ -

[1] Of which $82,556 was expensed and $28,828 was allocated to projects.

8. 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 R$1,156,000 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:

	2008
Balance, January 1	$ 377,387
Additions to closure and reclamation costs during the year	-
Accretion incurred during the year	7,489
Foreign exchange difference	29,090
Expenditures during the year	-
Balance, March 31	$ 413,966

9. SHARE CAPITAL

Authorized – Unlimited number of common shares, no par value

(a) Common Shares

	Notes	Shares	Amount
Balance, January 1, 2008		168,073,761	$ 98,329,103
Shares issued for the purchase of Great Western (net of expenses for share issue of $64,355)	3	45,694,837	24,610,857
Shares repurchased under normal course issuer bid (i)		-	(20,857)
Balance, March 31, 2008		213,768,598	$ 122,919,103

(i) In the three months ended March 31, 2008, the Company purchased 47,000 common shares pursuant to the normal course issuer bid. The purchased shares are subsequently cancelled in April 2008.

(b) Common Share Purchase Warrants

	Notes	Warrants	Amounts
Balance, January 1, 2008		21,824,834	$ 3,652,732
Warrants and Broker Warrants issued in respect of Great Western acquisition	3	12,159,030	95,990
Balance, March 31, 2008		33,983,864	$ 3,748,722

The following is a summary of unexercised warrants, dates of issue, exercise prices and expiry dates as at March 31, 2008:

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
1,191,659	March 10, 2008	1.77	June 22, 2008
34,875	March 10, 2008	1.77	September 28, 2008
344,363	March 10, 2008	1.33	December 21, 2008
900,000	March 10, 2008	1.33	February 23, 2009
6,350,000	March 10, 2008	1.33	March 30, 2009
1,033,750	March 10, 2008	1.33	March 30, 2009
103,453	March 10, 2008	1.77	June 22, 2008
2,441	March 10, 2008	1.77	September 28, 2008
217,670	March 10, 2008	1.00	December 21, 2008
126,000	March 10, 2008	1.00	February 23, 2009
360,361	March 10, 2008	1.00	March 9, 2009
900,000	March 10, 2008	1.00	March 30, 2009
128,375	March 10, 2008	1.00	March 30, 2009
64,188	March 10, 2008	1.33	March 30, 2009
131,895	March 10, 2008	1.00	August 16, 2009
270,000	March 10, 2008	0.55	February 27, 2009
33,983,864			

9. SHARE CAPITAL (CONTINUED)

(c) 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.

	Number	Weighted Av. Price
Options outstanding as at January 1, 2008	8,797,000	$ 0.73
Issued during the period	9,710,000	0.61
Forfeited during the period	(242,500)	0.29
Options outstanding as at March 31, 2008	18,264,500	$ 0.66

Exercise Price	Outstanding March 31, 2008	Weighted Av. Life (Years)
$ 0.40	40,000	0.00
0.45	525,000	0.04
0.45	6,920,000	1.85
0.50	1,330,000	0.05
0.50	100,000	0.01
0.50	55,000	0.01
0.50	208,000	0.02
0.58	650,000	0.06
0.75	2,030,000	0.31
0.84	810,000	0.12
0.85	100,000	0.01
0.85	2,575,000	0.54
0.91	650,000	0.06
0.95	225,000	0.05
0.95	1,012,500	0.22
0.97	50,000	0.01
0.99	234,000	0.02
1.02	180,000	0.04
1.37	75,000	0.01
1.44	495,000	0.09
	18,264,500	3.52

During the three months ended March 31, 2008, the Company recognized stock based compensation expense of $1,351,628 (2006: $1,495,325) utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

	2008	2007
Risk-free interest rate	3.45%	3.9%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	65.6%	80.7%
Expected life of options	5 years	5 years

9. SHARE CAPITAL (CONTINUED)

The fair value of the options outstanding are as follows:

	Number	Stock Option Value
Options outstanding as at January 1, 2008	8,797,000	$ 3,786,319
Issued during the year	9,710,000	2,158,220
Forfeited during the year	(242,500)	(112,457)
Options outstanding March 31, 2008	18,264,500	$ 5,832,082

As at March 31, 2008, the remaining number of common shares available for issuance under the stock option plan is 3,112,359.

(d) Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised as follows:

	2008
Balance, January 1	$ 250,000
Reversal of unrealized loss on available-for-sale investment	(250,000)
Balance, March 31	$ -

10. SUMMARY OF SECURITIES AS AT MARCH 31, 2008

Common shares outstanding	213,768,598
Unexercised options to acquire common shares	18,264,500
Unexercised warrants to acquire common shares	33,983,864
Fully diluted shares outstanding	266,016,962

11. 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 March 31, 2008 was 206,365,658 (2007: 82,027,053). 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.

12. FUTURE TAX LIABILITY

The following shows the change in the future tax liability for the three months ended March 31, 2008:

	2008
Balance, January 1	$ 25,856,571
Acquisition of Great Western	4,936,262
Additions to mineral properties	31,952
Foreign exchange difference	1,839,708
Balance, March 31	$ 32,664,493

13. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities includes cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities. Cash and cash equivalents and restricted cash are classified as held-for-trading and are carried at fair values on the consolidated balance sheet due to the short-term nature of these financial instruments. Amount receivables are also carried at fair value.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and market risk.

(a) Currency risk

The Company's sales are denominated in United States dollars. The Company operates primarily in Brazil and a significant portion of the Company's operating costs and capital expenditures are denominated in the Brazilian real and Canadian dollar. As a result, the Company is exposed to the currency fluctuations relative to these two currencies. A significant change in the currency exchange rates between the Brazilian real and United States dollar relative to the Canadian dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Based on the Company's operations for the quarter ended March 31, 2008, a 10% strengthening of the Brazilian real against the Canadian dollar will result in an increased operating loss of approximately $0.4 million, while a corresponding strengthening of the United States dollar will result in a reduction in operating loss of approximately the same magnitude.

(b) Credit risk

Credit risk is the risk of unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations.

As the sales of the Company are predominantly through uptake agreements with two customers, the Company is exposed to the concentration of credit risk on the accounts receivable from its customers. However, the uptake agreements provide for a relatively short credit period and thus reduce any credit risk.

The Company's cash equivalents are held through large Canadian financial institutions, and are composed of Government of Canada treasury bills, or other short-term debt instruments guaranteed by the Government of Canada.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in note 6 to the unaudited consolidated financial statements, and continuously monitors its forecast and actual cash flows from operations. To the extent that the Company expects it does not have sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions.

(d) Price risk

The Company is exposed to price risk with respect to commodity prices through the price of diamonds and gold and also through various input prices such as electricity and fuel. The Company monitors the price of commodities continuously as well as major input prices and considers the risk exposure to fluctuating prices.

14. FLOW-THROUGH SHARES AND COMMITMENTS

As at March 31, 2008, the Company was obligated to incur $1,846,161 in eligible Canadian Exploration Expenditures before December 31, 2008. Restricted cash represents cash held in a separate bank account which is to be spent on eligible flow-through activities.

15. 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 5.

Three Months ended March 31, 2008	Duas Barras	Chapada	Corporate and Other	Total
Net sales	$ 2,618,524	$ 892,337	$ -	$ 3,510,861
Cost of sales (including cost of production)	2,049,734	1,346,346	-	3,396,080
Mining infrastructure and administration	385,339	465,920	-	851,259
Mine operating income (loss)	183,451	(919,929)		(736,478)
Corporate and general	-	-	1,206,473	1,206,473
Stock-based compensation	-	-	1,351,628	1,351,628
Amortization	9,183	18,732	60,262	88,177
Operating income (loss)	174,268	(938,661)	(2,618,363)	(3,382,756)
Additions to Property, plant and equipment	222,586	550,375	19,518	792,479
Total assets	$ 13,452,019	$ 84,288,842	$ 54,724,519	$ 152,465,380

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2008	2007
Issuance of shares regarding acquisitions	$ 24,675,212	$ 1,500,000
Warrants issued regarding acquisitions	95,990	-
Options issued regarding acquisitions	$ 365,940	$ -

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Under the terms of the Company's leases, the Company is committed to pay a total amount of $264,471 over a period of between 4 months to 30 months in respect of property leases in both Brazil and Canada.