



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 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	
		June 30, 2008	December 31, 2007
Current Assets			
Cash and cash equivalents		\$ 3,075,034	\$ 10,928,569
Restricted cash	15	860,005	-
Accounts receivable		124,515	-
Inventories	4	1,229,252	2,406,024
Brazilian taxes and contributions recoverable		424,154	262,449
Deferred stripping costs	5	481,481	-
Sundry receivables and prepayments		386,466	328,926
		6,580,907	13,925,968
Property, plant and equipment		11,264,739	10,455,555
Mineral properties	6	130,686,616	97,547,162
Investment		-	250,000
Brazilian taxes and contributions recoverable		927,572	807,145
Other assets		584,108	267,994
		<u>\$ 150,043,942</u>	<u>\$ 123,253,824</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities			
Accounts payable and accrued liabilities		\$ 2,317,751	\$ 2,076,522
		2,317,751	2,076,522
Asset retirement obligations	9	457,589	377,387
Future income tax liabilities	13	34,905,471	25,856,571
Shareholders' Equity			
Common shares	10(a)	125,015,406	98,329,103
Common share purchase warrants	10(b)	3,748,722	3,652,732
Contributed surplus	10(d)	450,229	277,333
Stock options	10(c)	5,799,557	3,786,319
Deficit		(22,650,783)	(10,852,143)
Accumulated other comprehensive loss	10(e)	-	(250,000)
		112,363,131	94,943,344
		<u>\$ 150,043,942</u>	<u>\$ 123,253,824</u>
Basis of presentation	2		
Subsequent Events	19		
Commitments and contingencies	15,18		

See accompanying notes to consolidated financial statements.

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2008	2007	2008	2007
Net sales		\$ 2,691,599	\$ -	\$ 6,202,460	\$ -
Cost of sales		4,820,774	-	8,216,854	-
Mine infrastructure and administration		728,480	-	1,579,739	-
Mine operating loss		(2,857,655)	-	(3,594,133)	-
Corporate and general		1,090,692	588,155	2,297,165	1,028,204
Stock-based compensation	10(c)	112,457	29,165	1,464,085	1,495,325
Amortization		105,147	64,025	193,324	117,458
	16	(4,165,951)	(681,345)	(7,548,707)	(2,640,987)
Foreign exchange loss	14	(2,718,474)	12,072	(4,483,256)	(2,959)
Interest income		23,012	42,776	82,916	137,082
Write-off of exploration properties	6	(1,155)	(125,272)	(189,569)	(1,640,025)
Net loss before income taxes and minority interest		(6,862,568)	(751,769)	(12,138,616)	(4,146,889)
Income tax recovery		339,976	-	339,976	-
Minority interest		-	-	-	(598)
Net loss for the period		(6,522,592)	(751,769)	(11,798,640)	(4,147,487)
Deficit, beginning of period		(16,128,191)	(8,803,471)	(10,852,143)	(5,407,753)
Deficit, end of period		(22,650,783)	(9,555,240)	(22,650,783)	(9,555,240)
Basic and diluted loss per common share		\$ (0.03)	\$ (0.01)	\$ (0.06)	\$ (0.05)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2008	2007	2008	2007
Net loss for the period		\$ (6,522,592)	\$ (751,769)	\$ (11,798,640)	\$ (4,147,487)
Other comprehensive income:					
Unrealized loss on investment		-	(55,555)	-	(55,555)
Reversal of unrealized loss on investment		-	-	250,000	-
Other comprehensive income		-	(55,555)	250,000	(55,555)
Comprehensive loss for the period		\$ (6,522,592)	\$ (807,324)	\$ (11,548,640)	\$ (4,203,042)

See accompanying notes to consolidated financial statements.

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2008	2007	2008	2007
Operating Activities					
Net loss for the period		\$ (6,522,592)	\$ (751,769)	\$ (11,798,640)	\$ (4,147,487)
Amortization and depreciation		1,142,518	64,025	1,918,753	117,458
Accretion expense	9	8,635	-	16,124	-
Write-off of exploration properties	6	1,155	125,272	189,569	1,640,025
Stock-based compensation	10 (c)	112,457	29,165	1,464,085	1,495,325
Unrealized foreign exchange loss (gain)		2,621,546	(3,112)	4,490,344	(3,112)
Future income tax recovery		(339,976)	-	(339,976)	-
Minority interest		-	-	-	598
		<u>\$ (2,976,257)</u>	<u>\$ (536,419)</u>	<u>\$ (4,059,741)</u>	<u>\$ (897,193)</u>
Change in non-cash components of working capital					
(Increase) decrease in accounts receivable		600,650	-	(124,515)	-
(Increase) decrease in sundry receivables and prepayments		305,159	(10,438)	320,142	(17,386)
(Increase) decrease in sales taxes recoverable		(63,906)	-	(282,132)	-
Increase in deferred stripping costs		(554,872)	-	(554,872)	-
Decrease in inventories		654,322	-	801,968	-
Increase (decrease) in accounts payable and accrued liabilities		236,245	52,874	(545,793)	(124,218)
Cash used in operating activities		<u>(1,798,659)</u>	<u>(493,983)</u>	<u>(4,444,943)</u>	<u>(1,038,797)</u>
Investing Activities					
Purchase of property, plant and equipment		(564,491)	(659,154)	(1,356,970)	(1,711,213)
Mineral exploration expenditures	3	(1,776,967)	(3,177,058)	(5,166,600)	(4,365,415)
Restricted cash		986,156	124,908	2,251,484	244,694
Acquisition of Elkedra		(16,941)	-	(79,577)	-
Acquisition of Great Western	3	(314,727)	-	(865,701)	(500,000)
Acquisition of Cajueiro	3	-	(595)	-	(2,266,425)
Acquisition of Tres Marias	3	(100,000)	-	(100,000)	-
Investments		-	-	-	-
Increase in other assets		(255,257)	15,742	(469,349)	(114,760)
Cash used in investing activities		<u>(2,042,227)</u>	<u>(3,696,157)</u>	<u>(5,786,713)</u>	<u>(8,713,119)</u>
Financing Activities					
Proceeds from issuance of common shares (net of share issue costs)	10(a)	2,521,610	5,438	2,445,916	2,932
Repayment of share purchase loan		-	-	-	100,000
Repurchase of common shares	10(a)	(46,938)	-	(67,795)	-
Cash provided by financing activities		<u>2,474,672</u>	<u>5,438</u>	<u>2,378,121</u>	<u>102,932</u>
Changes in cash and cash equivalents		(1,366,214)	(4,184,702)	(7,853,535)	(9,648,984)
Cash and cash equivalents, beginning of period		4,441,248	6,854,501	10,928,569	12,318,783
Cash and cash equivalents, end of period		<u>\$ 3,075,034</u>	<u>\$ 2,669,799</u>	<u>\$ 3,075,034</u>	<u>\$ 2,669,799</u>
Cash and cash equivalents are comprised of the following:					
Cash		\$ 2,964,974	\$ 900,790	\$ 2,964,974	\$ 900,790
Short-term investments		110,060	1,769,009	110,060	1,769,009
		<u>\$ 3,075,034</u>	<u>\$ 2,669,799</u>	<u>\$ 3,075,034</u>	<u>\$ 2,669,799</u>

Supplementary cash flow information (Note 17)
See accompanying notes to consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 and six months ended June 30, 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:

(i) 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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

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 14.

(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 7.

(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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

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

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

3. BUSINESS ACQUISITIONS (CONTINUED)

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

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 was 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 \$26,075,161, comprised of 45,694,837 Vaaldiam common shares valued at \$24,247,529, 14,949,030 warrants and share options valued at \$461,930, and \$865,702 transaction costs.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

3. BUSINESS ACQUISITIONS (CONTINUED)

The purchase price was calculated as follows:

Common shares issued (45,694,837 common shares at average cost of \$0.5306 per share)	\$ 24,247,529
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	\$ 26,075,161

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

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	28,446,057
Future income taxes	(4,810,918)
Net identifiable assets	\$ 26,075,161

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 June 30, 2008 included rough diamonds, work in progress, as well as supplies inventory. Work in progress includes gold and diamond concentrates. 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.

	June 30, 2008	December 31, 2007
Rough diamonds	\$ 886,009	\$ 1,731,903
Diamond and gold concentrates	57,776	421,507
Supplies inventory	285,467	252,614
	\$ 1,229,252	\$ 2,406,024

5. DEFERRED STRIPPING COSTS

During the period, the Company capitalized certain cost related to stripping activities for the purpose of providing access to mineral resources. These deferred costs are amortized to the cost of production as the mineral resource is extracted.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

6. MINERAL PROPERTIES

	January 1, 2008	Activity	June 30, 2008
Production properties			
Brazil			
Duas Barras			
Cost	\$ 7,593,940	\$ 542,129	\$ 8,136,069
Amortization	(586,630)	(345,552)	(932,182)
	7,007,310	196,577	7,203,887
Chapada			
Cost	8,364,189	144,019	8,508,208
Amortization	(38,852)	(361,932)	(400,784)
	8,325,337	(217,913)	8,107,424
Exploration properties			
Brazil			
Chapada Exploration Property	67,093,630	260,068	67,353,698
Brauna Property	9,707,057	865,642	10,572,699
Ariquemes Property	-	15,328,409	15,328,409
Pimenta Bueno Property	5,070,840	305,874	5,376,714
Três Marias	-	242,790	242,790
Others	169,258	135,386	304,644
	82,040,785	17,138,169	99,178,954
Canada			
Candle Lake	-	14,379,764	14,379,764
Centennial	-	508,536	508,536
Other Saskatchewan Properties	-	661,850	661,850
Alberta Area Properties	173,730	472,471	646,201
	173,730	16,022,621	16,196,351
Total Production Properties	15,332,647	(21,336)	15,311,311
Total Exploration Properties	82,214,515	33,160,790	115,375,305
Total Mineral Properties	\$ 97,547,162	\$ 33,139,454	\$ 130,686,616

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, in the first quarter, 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 \$189,569 were written off during the six months to June 30, 2008.

7. 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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

7. MANAGEMENT OF CAPITAL (CONTINUED)

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 issue 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.

As at June 30, 2008, neither the Company nor any of its subsidiaries were 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 six months ended June 30, 2008.

8. 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

	Six months ended June 30	
	2008	2007
Management and consulting fees paid or payable to a company controlled by the:		
Vice President, Business Development	\$ 113,776	\$ -
Vice President, Technical Services	115,972	-
	<u>\$ 229,748</u> ¹	<u>\$ -</u>

¹ Of which \$179,690 was expensed and \$50,058 was allocated to projects.

9. 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, 2008	\$ 377,387
Additions to closure and reclamation costs during the period	-
Accretion incurred during the period	16,124
Foreign exchange difference	64,078
Expenditures during the period	-
Balance, June 30, 2008	<u>\$ 457,589</u>

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

10. 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	24,183,174
Shares issued for the purchase of Tres Marias property (net of expenses for share issue of \$2,191)		234,023	75,037
Private placement (net of expenses for share issue of \$5,922)		7,277,429	2,523,801
Shares repurchased under normal course issuer bid		(167,000)	(95,709)
Balance, June 30, 2008		221,113,050	\$ 125,015,406

In June 2008, the Company acquired ownership of the Três Marias project in the state of Minas Gerais, Brazil from Majescor who had acquired the project from De Beers in 2006. The acquisition price was \$100,000 in cash and 234,023 common shares of the Company. De Beers retains back-in rights to acquire a 51% interest in the project, under which it will reimburse the Company three times its expenditures on the project. De Beers could also increase its interest to 60% by financing the mine to development.

In June 2008, in return for the granting of diamond marketing rights on future Brazil-based production, the Company completed a non-brokered private placement involving the issuance of 7,277,429 common shares at a premium price of \$0.35 per share for total proceeds of US\$2,500,000 and secured a revolving line of credit of US\$2,500,000.

(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
Warrants expired		(1,295,112)	-
Balance, June 30, 2008		32,688,752	\$ 3,748,722

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

10. SHARE CAPITAL (CONTINUED)

The following is a summary of unexercised warrants, dates of issue, exercise prices and expiry dates as at June 30, 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
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
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
32,688,752			

(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	(490,000)	0.83
Options outstanding as at June 30, 2008	18,017,000	\$ 0.66

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

10. SHARE CAPITAL (CONTINUED)

Exercise Price	Outstanding June 30, 2008	Weighted Av. Life (Years)
\$ 0.40	40,000	0.00
0.45	525,000	0.04
0.45	6,920,000	1.78
0.50	1,330,000	0.03
0.50	100,000	0.00
0.50	55,000	0.01
0.50	208,000	0.02
0.58	650,000	0.05
0.75	2,030,000	0.29
0.84	675,000	0.09
0.85	100,000	0.01
0.85	2,575,000	0.51
0.91	650,000	0.05
0.95	225,000	0.04
0.95	933,750	0.20
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	461,250	0.08
	18,017,000	3.28

During the six months ended June 30, 2008, the Company recognized stock based compensation expense of \$1,464,085 (2007: \$1,495,325) utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

	2008	2007
Risk-free interest rate	3.45%	3.94%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	65.6%	80.74%
Expected life of options	5 years	5 years

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 period	9,710,000	2,158,220
Forfeited during the period	(490,000)	(144,982)
Options outstanding June 30, 2008	18,017,000	\$ 5,799,557

As at June 30, 2008, the remaining number of common shares available for issuance under the stock option plan is 4,094,305.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

10. SHARE CAPITAL (CONTINUED)**(d) Contributed Surplus**

	2008
Balance, January 1, 2008	\$ 277,333
Options forfeited during the period	144,982
Shares repurchased under normal course issuer bid	27,914
Balance, June 30, 2008	\$ 450,229

(e) Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised as follows:

	2008
Balance, January 1, 2008	\$ 250,000
Reversal of unrealized loss on available-for-sale investment	(250,000)
Balance, June 30, 2008	\$ -

11. SUMMARY OF SECURITIES AS AT JUNE 30, 2008

Common shares outstanding	221,113,050
Unexercised options to acquire common shares	18,017,000
Unexercised warrants to acquire common shares	32,688,752
Fully diluted shares outstanding	271,818,802

12. 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 six months ended June 30, 2008 was 210,075,960 (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.

13. FUTURE TAX LIABILITY

The following shows the change in the future tax liability for the three months ended June 30, 2008:

	2008
Balance, January 1, 2008	\$ 25,856,571
Acquisition of Great Western	4,810,918
Additions to mineral properties	151,692
Future tax recovery	(339,976)
Foreign exchange difference	4,426,266
Balance, June 30, 2008	\$ 34,905,471

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

14. 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 six months ended June 30, 2008, a 10% strengthening of the Brazilian real against the Canadian dollar would result in an increased operating loss of approximately \$0.8 million, while a corresponding strengthening of the United States dollar will result in a reduction in operating loss of approximately \$0.6.

(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 7 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.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

15. FLOW-THROUGH SHARES AND COMMITMENTS

As at June 30, 2008, the Company was obligated to incur \$860,005 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.

16. 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.

Three Months ended June 30, 2008	Duas Barras	Chapada	Corporate and Other	Total
Net sales	\$ 1,365,075	\$ 1,326,524	\$ -	\$ 2,691,599
Cost of sales (including cost of production)	2,245,748	2,575,026	-	4,820,774
Mining infrastructure and administration	361,704	366,776	-	728,480
Mine operating income (loss)	(1,242,377)	(1,615,278)	-	(2,857,655)
Corporate and general	-	-	1,090,692	1,090,692
Stock-based compensation	-	-	112,457	112,457
Amortization	20,471	22,725	61,951	105,147
Operating income (loss) before property write-offs, interest income and foreign exchange difference	(1,262,848)	(1,638,003)	(1,265,100)	(4,165,951)
Additions to Property, plant and equipment	515,477	38,588	10,426	564,491
Six Months ended June 30, 2008	Duas Barras	Chapada	Corporate and Other	Total
Net sales	\$ 3,983,599	\$ 2,218,861	\$ -	\$ 6,202,460
Cost of sales (including cost of production)	4,295,482	3,921,372	-	8,216,854
Mining infrastructure and administration	747,043	832,696	-	1,579,739,
Mine operating income (loss)	(1,058,926)	(2,535,207)	-	(3,594,133)
Corporate and general	-	-	2,297,165	2,297,165
Stock-based compensation	-	-	1,464,085	1,464,085
Amortization	29,654	41,457	122,213	193,324
Operating income (loss) before property write-offs, interest income and foreign exchange difference	(1,088,580)	(2,576,664)	(3,883,463)	(7,458,707)
Additions to Property, plant and equipment	738,063	588,963	29,944	1,356,970
Total assets	\$ 6,134,873	\$ 84,054,712	\$ 59,854,357	\$ 150,043,942

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

17. 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	\$ 24,324,757	\$ 1,500,000
Warrants issued regarding acquisitions	95,990	-
Options issued regarding acquisitions	\$ 365,940	\$ -

18. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Under the terms of the Company's leases, the Company is committed to pay a total amount of \$305,483 over a period of between 1 month to 27 months in respect of property and other lease agreements in both Brazil and Canada.

19. SUBSEQUENT EVENTS

(a) RST Acquisition

On July 1, 2008, the Company entered into an agreement to acquire RST Recursos Minerais Ltda. ("RST") for US\$9,000,000 in cash and US\$1,170,000 in the Company's common shares. US\$500,000 was paid on July 1, 2008, as well as 3,374,185 common shares valued at US\$1,170,000, and the remainder of US\$8,500,000 to be paid on August 15, 2008. RST owns the Peçanha mine and concessions adjacent to the Duas Barras mine in the state of Minas Gerais, Brazil.

(b) Drawdown of line of credit

On July 30, 2008, an amount of US\$1,500,000 was drawn down on the revolving line of credit of US\$2,500,000. (Note 10(a) refers)

(c) Rights offering

On August 13, 2008, the Company filed a prospectus relating to a rights issue whereby each Company shareholder will receive one right per share. Under the offering, which expires on September 17, 2008, each two rights entitle the holder to acquire one Company share at \$0.15.

(d) Braúna extension

In July 2008, the Company acquired rights to a mineral property adjacent to the Braúna property in Nordestina in the state of Bahia, Brazil. These were acquired from Mineração Monte Alegre Ltda., a company associated with a significant shareholder, in return for a 5% in royalty on diamond production from the property.