



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 Vaalldiam Resources Ltd. ("the Company" or "Vaalldiam") for the three and nine months ended September 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)

	Notes	As at	
		September 30, 2008	December 31, 2007
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 467,935	\$ 10,928,569
Restricted cash	16	432,604	-
Sundry receivables and prepayments		480,609	328,926
Inventories	4	1,734,348	2,406,024
Brazilian taxes and contributions recoverable		376,802	262,449
		3,492,298	13,925,968
Property, plant and equipment	6	15,951,072	10,455,555
Mineral properties	6, 7	51,910,439	97,547,162
Deferred stripping costs	5	805,666	-
Brazilian taxes and contributions recoverable		1,039,317	807,145
Investment		-	250,000
Other assets		872,347	267,994
		\$ 74,071,139	\$ 123,253,824
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Line of credit	8, 11(a)(iii)	\$ 2,588,800	\$ -
Interest payable		22,415	-
Accounts payable and accrued liabilities		5,894,668	2,076,522
Payable in respect of RST acquisition	3	7,526,466	-
		16,032,349	2,076,522
Asset retirement obligations	10	403,086	377,387
Future income tax liabilities	6, 14	2,372,159	25,856,571
Shareholders' Equity			
Common shares	11(a)	126,010,876	98,329,103
Common share purchase warrants	11(b)	3,181,921	3,652,732
Stock options	11(c)	5,672,559	3,786,319
Contributed surplus	11(d)	1,254,950	277,333
Deficit		(80,856,761)	(10,852,143)
Accumulated other comprehensive loss	11(e)	-	(250,000)
		55,263,545	94,943,344
		\$ 74,071,139	\$ 123,253,824
Basis of presentation	2		
Subsequent Events	20		
Commitments and contingencies	16,19		

See accompanying notes to consolidated financial statements.

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

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2008	2007	2008	2007
Net sales		\$ 646,136	\$ -	\$ 6,848,596	\$ -
Cost of sales		1,775,444	-	9,992,298	-
Mine infrastructure and administration		1,418,736	-	2,998,475	-
Mine operating loss		(2,548,044)	-	(6,142,177)	-
Corporate and general		1,586,763	552,620	3,883,928	1,580,824
Stock-based compensation	11(c)	49,106	-	1,513,191	1,495,325
Amortization		145,215	95,435	338,539	212,893
Foreign exchange gain (loss)	17	(4,329,128)	(648,055)	(11,877,835)	(3,289,042)
Interest income		3,999,324	(60,034)	(483,932)	(62,993)
Interest expense		6,170	38,509	89,086	175,591
Financing cost		(22,415)	-	(22,415)	-
Write-down of exploration properties	7	(189,176)	-	(189,176)	-
Impairment charges	6	(13,149,820)	(10,876)	(13,339,389)	(1,650,901)
Loss before income taxes and minority interest		(72,607,574)	-	(72,607,574)	-
Income tax recovery	14	(86,292,619)	(680,456)	(98,431,235)	(4,827,345)
Minority interest		28,086,641	-	28,426,617	-
Net loss for the period		-	-	-	(598)
Deficit, beginning of period		(58,205,978)	(680,456)	(70,004,618)	(4,827,943)
Deficit, end of period		(22,650,783)	(9,555,240)	(10,852,143)	(5,407,753)
Basic and diluted loss per common share		(80,856,761)	(10,235,696)	(80,856,761)	(10,235,696)
		\$ (0.26)	\$ (0.01)	\$ (0.33)	\$ (0.06)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2008	2007	2008	2007
Net loss for the period		\$ (58,205,978)	\$ (680,456)	\$ (70,004,618)	\$ (4,827,943)
Other comprehensive income:					
Unrealized loss on investment		-	(77,778)	-	(133,334)
Reversal of unrealized loss on investment		-	-	250,000	-
Other comprehensive income		-	(77,778)	250,000	(133,334)
Comprehensive loss for the period		\$ (58,205,978)	\$ (758,234)	\$ (69,754,618)	\$ (4,961,277)

See accompanying notes to consolidated financial statements.

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

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2008	2007	2008	2007
Operating Activities					
Net loss for the period		\$ (58,205,978)	\$ (680,456)	\$ (70,004,618)	\$ (4,827,944)
Amortization and depreciation		511,310	95,435	2,430,063	212,893
Accretion expense	10	9,064	-	25,188	-
Write-off of exploration properties	7	13,149,820	10,876	13,339,389	1,650,901
Impairment charges	6	72,607,574	-	72,607,574	-
Stock-based compensation	11 (c)	49,106	-	1,513,191	1,495,325
Unrealized foreign exchange (gain) loss		(4,149,237)	(29,362)	341,107	(32,474)
Future income tax recovery		(28,086,641)	-	(28,426,617)	-
Minority interest		-	-	-	598
		(4,114,982)	(603,507)	(8,174,723)	(1,500,701)
Change in non-cash components of working capital					
Decrease in accounts receivable		124,515	-	-	-
(Increase) decrease in sundry receivables and prepayments		249,115	(190,137)	569,257	(207,523)
(Increase) decrease in sales taxes recoverable		244,270	(362,912)	(37,862)	(477,672)
(Increase) decrease in inventories		373,237	(382,065)	1,175,205	(382,065)
Increase (decrease) in accounts payable and accrued liabilities		(67,444)	124,583	(613,237)	366
Cash used in operating activities		(3,191,289)	(1,414,038)	(7,081,360)	(2,567,595)
Investing Activities					
Purchase of property, plant and equipment		(161,127)	(233,640)	(1,518,097)	(1,343,020)
Mineral exploration expenditures		(1,366,168)	(1,221,948)	(6,532,768)	(6,189,196)
Restricted cash		427,401	10,876	2,678,885	255,570
Increase in deferred stripping costs		(461,753)	-	(1,016,625)	-
Acquisition of Elkedra	3	(1,784)	-	(81,361)	-
Acquisition of Great Western	3	(125,000)	-	(990,701)	(500,000)
Acquisition of Cajueiro	3	-	-	-	(2,266,425)
Acquisition of Três Marias	3	-	-	(100,000)	-
Acquisition of RST	3	(528,149)	-	(528,149)	-
Increase in loan receivable		-	(273,983)	-	(273,983)
Increase in other assets		22,841	(366,137)	(446,508)	(366,137)
Cash used in investing activities		(2,193,739)	(2,084,832)	(8,535,324)	(10,683,191)
Financing Activities					
Increase in line of credit		2,588,800	-	2,588,800	-
Proceeds from issuance of common shares (net of share issue costs)	11(a)	207,797	-	2,653,713	2,932
Net proceeds from issuance of subscription receipts		-	5,997,617	-	5,997,617
Repayment of share purchase loan		-	-	-	100,000
Repurchase of common shares	11(a)	(18,668)	-	(86,463)	-
Cash provided by financing activities		2,777,929	5,997,617	5,156,050	6,100,549
Changes in cash and cash equivalents		(2,607,099)	2,498,747	(10,460,634)	(7,150,237)
Cash and cash equivalents, beginning of period		3,075,034	2,669,799	10,928,569	12,318,783
Cash and cash equivalents, end of period		\$ 467,935	\$ 5,168,546	\$ 467,935	\$ 5,168,546
Cash and cash equivalents are comprised of the following:					
Cash		\$ 467,935	\$ 943,794	\$ 467,935	\$ 943,794
Short-term investments		-	4,224,752	-	4,224,752
		\$ 467,935	\$ 5,168,546	\$ 467,935	\$ 5,168,546

Supplementary cash flow information (Note 18)
See accompanying notes to consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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. The Company is in the process of negotiating a debt financing. There can be no guarantee that management’s efforts to secure additional funds will be successful. 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 Diamonds Corp. (“Great Western”);
- Oleander Financial Inc. (“Oleander”);
- Mineração Fortuna Ltda. (“Fortuna”); and
- RST Recursos Mineraiis Ltda. (“RST”).

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

The unaudited interim financial statements for the three and nine months ended September 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 in the prior year.

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

2. BASIS OF PRESENTATION (CONTINUED)

(ii) Deferred Stripping Cost

Stripping costs incurred in the production phase to provide access to mineral resources are capitalized as incurred and amortized to the cost of production on a unit-of-production basis as the mineral is extracted. Previously, these were not recorded. This change has no material impact on the prior year's financial statements as there was no significant pre-stripping activities in the prior year.

(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 15.

(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 8.

(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.

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

3. BUSINESS ACQUISITIONS (CONTINUED)

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

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 NINE MONTHS ENDED SEPTEMBER 30, 2008**

3. BUSINESS ACQUISITIONS (CONTINUED)

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

Cash acquired	\$ 215,974
Non-cash working capital deficit	(26,979)
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 with a fixed and floating charge over Elkedra's assets.

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 NINE MONTHS ENDED SEPTEMBER 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:

Restricted cash acquired	\$ 3,111,489
Non-cash working capital deficit	(876,345)
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.

ACQUISITION OF RST

On July 1, 2008, the Company entered into an agreement to acquire 100% ownership of RST and to acquire two outstanding RST loans from Marrakwnene Holding, Investimentos E Participações, Ltda. ("Marrakwnene") and Redburn Investments Inc. ("Redburn"). RST owns the Peçanha mine and concessions adjacent to the Duas Barras mine in the state of Minas Gerais, Brazil.

The purchase price for the acquisition was as follows:

- US\$1,500,000 less US\$330,000 representing agreed liabilities of RST at July 1, 2008 paid in common shares of the Company; and
- US\$9,000,000 less approximately US\$1,400,000 representing certain payables of RST at July 1, 2008.

On July 1, 2008, the Company delivered 3,374,185 common shares and paid cash of US\$500,000. The remaining US\$7,100,000 due to Marrakwnene and Redburn and the approximately US\$1,400,000 due to an RST supplier, totalling US\$8,500,000, was payable on or before August 15, 2008. This due date has been extended pending the outcome of the Company's financing efforts. The Company is currently in discussions to renegotiate the terms of the RST acquisition.

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

3. BUSINESS ACQUISITIONS (CONTINUED)

The acquisition is recorded as a business combination. The final purchase consideration may vary depending on the results of the renegotiation. The preliminary purchase price was calculated as follows:

Common shares issued (3,374,185 common shares at cost of \$0.32 per share)	\$ 1,079,739
Cash (paid and payable)	7,742,491
Transaction costs	56,280
Purchase Price	\$ 8,878,510

The preliminary allocation of the purchase price is as follows:

Cash acquired	\$ 37,431
Non-cash working capital deficit	(1,656,252)
Property, plant and equipment	7,189,542
Mineral properties	3,038,972
Future income taxes	268,817
Net identifiable assets	\$ 8,878,510

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 acquisition price as well as 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 September 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.

	September 30, 2008	December 31, 2007
Rough diamonds	\$ 1,200,904	\$ 1,731,903
Diamond and gold concentrates	20,120	421,507
Supplies inventory	513,324	252,614
	\$ 1,734,348	\$ 2,406,024

5. DEFERRED STRIPPING COSTS

During the period, the Company capitalized \$1,016,625 of certain costs related to stripping activities for the purpose of providing access to mineral resources. These deferred costs are amortized to the cost of production on a units of production basis as the related mineral resource is extracted. A total of \$210,959 of amortization was recorded during the nine months ended September 30, 2008.

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

6. IMPAIRMENT CHARGES

In light of the deteriorating market conditions and the negative cash flow, the Company will endeavour to consolidate its resources and redirect them to projects with the highest probability of success while other projects will be placed on care and maintenance until such time as resources would allow a resumption of activity. Early stage exploration projects will be dropped. The carrying amount of the Brazilian projects were tested for impairment and based on the recent assessment of an independent consultant, the following impairment charges were recorded to reduce the carrying amount to the estimated fair value:

Chapada mining property	\$	5,608,425
Chapada exploration property		64,462,600
Chapada plant and equipment		2,536,549
Impairment charge		72,607,574
Income tax recovery		(21,714,914)
	\$	50,892,660

7. MINERAL PROPERTIES

	January 1, 2008	Activity	Write-down	Impairment	September 30, 2008
Production properties					
Brazil					
Duas Barras					
Cost	\$ 7,593,940	\$ 541,985	\$ -	\$ -	\$ 8,135,925
Amortization	(586,630)	(547,338)	-	-	(1,133,968)
	7,007,310	(5,353)	-	-	7,001,957
Chapada					
Cost	8,364,189	144,019	-	(5,608,425)	2,899,783
Amortization	(38,852)	(361,931)	-	-	(400,783)
	8,325,337	(217,912)	-	(5,608,425)	2,499,000
Exploration properties					
Brazil					
Chapada Exploration Property	67,093,630	230,700	-	(64,462,600)	2,861,730
Braúna Property	9,707,057	1,129,538	-	-	10,836,595
Ariquemes Property	-	15,988,996	(12,923,314)	-	3,065,682
Pimenta Bueno	5,070,840	540,081	-	-	5,610,921
Três Marias	-	342,118	(342,118)	-	-
Others	169,258	3,100,138	(33,229)	-	3,236,167
	82,040,785	21,331,571	(13,298,661)	(64,462,600)	25,611,095
Canada					
Candle Lake	-	14,932,594	-	-	14,932,594
Centennial	-	512,688	-	-	512,688
Other Saskatchewan Properties	-	671,065	-	-	671,065
Alberta Area Properties	173,730	549,036	(40,726)	-	682,040
	173,730	16,665,383	(40,726)	-	16,798,387
Total Production Properties	15,332,647	(223,265)	-	(5,608,425)	9,500,957
Total Exploration Properties	82,214,515	37,996,954	(13,339,387)	(64,462,600)	42,409,482
Total Mineral Properties	\$ 97,547,162	\$ 37,773,689	\$ (13,339,387)	\$ (70,071,025)	\$ 51,910,439

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

7. MINERAL PROPERTIES (CONTINUED)

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 totaling \$40,726 were written off during the nine months ended September 30, 2008.

In July 2008, on expiry of the mining contract at Chapada, mining operations were suspended until funding is available to allow the conversion of contract mining to company owned mining.

In September 2008, in light of the deteriorating market conditions and cash flow, a review was made of all the Brazilian exploration properties, and the decision was made to not renew certain claims when these next come up for renewal. As a result of this review, the Ariquemes property was written down by \$12,923,314; while \$342,118 in respect of Três Marias and \$33,229 in other exploration properties in Brazil were written off, representing exploration expenditures up to September 2008 for claims that would not be renewed.

8. MANAGEMENT OF CAPITAL

The Company considers its management of capital to include all components of debt and shareholders' equity. Its objectives are to ensure that the Company continues to operate as a going concern, if possible, 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 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 September 30, 2008, the Company has drawn down a total amount of US\$2,500,000 of a revolving line of credit (see Note 11(a)(iii)), and is in the process of negotiating a debt financing. However, should this debt financing not be attainable on satisfactory terms, the working capital within the Company may be insufficient to allow the Company to be operated as a going concern.

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:

Amounts Paid or Payable

	Nine months ended September 30	
	2008	2007
Management and consulting fees paid or payable to a company controlled by the:		
Vice President, Business Development	\$ 166,558	\$ -
Vice President, Technical Services	169,768	-
	¹ \$ 336,326	\$ -

¹ Of which \$302,012 was expensed, \$25,044 was allocated to projects and \$9,270 was allocated to the acquisition costs.

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

9. RELATED PARTY TRANSACTIONS (CONTINUED)

In July 2008, the Company acquired rights to a mineral property adjacent to the Braúna property in Nordeste 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% royalty on gross sales proceeds from diamond production from the property.

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 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	25,188
Foreign exchange difference	511
Expenditures during the period	-
Balance, September 30, 2008	\$ 403,086

11. 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 repurchased under normal course issuer bid	(i)	(310,500)	(176,193)
Shares issued for the purchase of Três Marias property (net of expenses for share issue of \$2,191)	(ii)	234,023	75,037
Private placement (net of expenses for share issue of \$5,922)	(iii)	7,277,429	2,523,801
Shares issued for the purchase of RST (net of expenses for share issue of \$3,785)	3	3,374,185	1,075,954
Shares issued in respect of rights offering (net of expenses)	(v)	708,933	-
Balance, September 30, 2008		225,052,668	\$ 126,010,876

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

11. SHARE CAPITAL (CONTINUED)

- (i) 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 at the time of the announcement. The actual number to be purchased, and the timing of the purchase would be determined by the management of the Company, and would be during a 12 month period commencing February 1, 2008 and ending January 31, 2009. All common shares purchased pursuant to the bid would be purchased for cancellation. During the nine months ended September 30, 2008, 310,500 common shares were repurchased and cancelled. The Company has no intention of repurchasing further shares at this time.
- (ii) 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.
- (iii) 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 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. Interest for this line of credit is payable quarterly and is determined based on the 3-month US\$ LIBOR rate plus 2.75% on the date of each drawdown.
- (iv) Under an offering of rights issued, which expired September 17, 2008, each Company shareholder received one right per share, and each two rights entitled the holder to acquire one Company share at \$0.15. Due to the weak equity markets, the Company's share price traded below the rights exercise price throughout the subscription period, as a result of which gross proceeds of only \$106,340 were raised.

(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	95,989
Warrants expired		(4,755,762)	(566,800)
Balance, September 30, 2008		29,228,102	\$ 3,181,921

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

11. SHARE CAPITAL (CONTINUED)

The following is a summary of unexercised warrants, dates of issue, exercise prices and expiry dates as at September 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
1,040,000	November 20, 2007	1.40	May 31, 2010
104,000	November 20, 2007	1.89	May 31, 2010
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
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
29,228,102			

(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 or three months after commencement of employment, whichever is later.

	Number	Weighted Av. Price
Options outstanding as at January 1, 2008	8,797,000	\$ 0.73
Issued during the period	10,335,000	0.58
Forfeited during the period	(1,123,750)	0.77
Options outstanding as at September 30, 2008	18,008,250	\$ 0.64

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

11. SHARE CAPITAL (CONTINUED)

Exercise Price	Outstanding September 30, 2008	Weighted Av. Life (Years)
\$ 0.17	625,000	0.17
0.40	40,000	0.00
0.45	525,000	0.03
0.45	6,720,000	1.65
0.50	1,330,000	0.01
0.50	50,000	0.00
0.50	55,000	0.01
0.50	208,000	0.01
0.58	650,000	0.04
0.75	2,030,000	0.26
0.84	585,000	0.07
0.85	100,000	0.01
0.85	2,450,000	0.45
0.91	650,000	0.04
0.95	146,250	0.03
0.95	843,750	0.16
0.97	50,000	0.01
0.99	234,000	0.01
1.02	180,000	0.03
1.37	75,000	0.01
1.44	461,250	0.07
	18,008,250	3.07

During the nine months ended September 30, 2008, the Company recognized stock based compensation expense of \$2,207,326 (2007: \$1,369,550) utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

	2008	2007
Risk-free interest rate	3.33%-3.45%	3.94%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	65.57%-66.16%	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/vested during the period	10,335,000	2,207,326
Forfeited during the period	(1,123,750)	(321,086)
Options outstanding September 30, 2008	18,008,250	\$ 5,672,559

As at September 30, 2008, the remaining number of common shares available for issuance under the stock option plan is 4,497,016.

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

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

	2008
Balance, January 1, 2008	\$ 277,333
Options forfeited during the period	321,086
Warrants expired during the period	566,800
Shares repurchased under normal course issuer bid	89,731
Balance, September 30, 2008	\$ 1,254,950

(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, September 30, 2008	\$ -

12. SUMMARY OF SECURITIES AS AT SEPTEMBER 30, 2008

Common shares outstanding	225,052,668
Unexercised options to acquire common shares	18,008,250
Unexercised warrants to acquire common shares	29,228,102
Fully diluted shares outstanding	272,289,020

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 nine months ended September 30, 2008 was 215,320,122 (2007: 82,824,208). 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.

14. FUTURE TAX LIABILITY

The following shows the change in the future tax liability for the period ended September 30, 2008:

	2008
Balance, January 1, 2008	\$ 25,856,571
Acquisition of Great Western	4,882,264
Acquisition of RST	(268,817)
Additions to mineral properties	281,437
Future tax recovery on operating losses	(2,169,857)
Future tax recovery on write-down of exploration properties	(4,541,847)
Future tax recovery on impairment charges	(21,714,914)
Foreign exchange difference	47,322
Balance, September 30, 2008	\$ 2,372,159

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

15. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities includes cash and cash equivalents, restricted cash, accounts receivable, 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. Accounts receivable, accounts payable and accrued liabilities are also carried at fair value on the consolidated balance sheet. The carrying amount of these items approximates fair value due to the short-term nature of these financial instruments.

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 nine months ended September 30, 2008, a 10% strengthening of the Brazilian real against the Canadian dollar would result in an increased operating loss of approximately \$1.1 million, while a corresponding strengthening of the United States dollar will result in a reduction in operating loss of approximately \$0.7 million.

(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.

(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 8 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 endeavor to secure additional funds through debt or equity transactions. There can be no guarantee that management's efforts to secure additional funds will be successful.

(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 NINE MONTHS ENDED SEPTEMBER 30, 2008**

16. FLOW-THROUGH SHARES AND COMMITMENTS

As at September 30, 2008, the Company was obligated to incur \$432,604 in eligible Canadian Exploration Expenditures before December 31, 2009. Restricted cash represents cash held in a separate bank account which is to be spent on eligible flow-through activities.

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. For the three and nine months ended September 30, 2007, the Company had only one reportable segment. Capital expenditures on the respective properties are disclosed in Note 7.

Three Months ended September 30, 2008	Duas Barras	Chapada	Corporate and Other	Total
Net sales	\$ 446,295	\$ 199,841	\$ -	\$ 646,136
Cost of sales (including cost of production)	1,499,698	275,746	-	1,775,444
Mining infrastructure and administration	481,643	937,093	-	1,418,736
Mine operating income (loss)	(1,535,046)	(1,012,998)	-	(2,548,044)
Corporate and general	-	-	1,586,763	1,586,763
Stock-based compensation	-	-	49,106	49,106
Amortization	15,735	20,765	108,715	145,215
Operating income (loss) before property write-offs, interest income and foreign exchange difference	(1,550,781)	(1,033,763)	(1,744,584)	(4,329,128)
Additions to Property, plant and equipment	253,836	777	18,563	273,176

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

17. SEGMENTED INFORMATION (CONTINUED)

Nine Months ended September 30, 2008	Duas Barras	Chapada	Corporate and Other	Total
Net sales	\$ 4,429,894	\$ 2,418,702	\$ -	\$ 6,848,596
Cost of sales (including cost of production)	5,795,180	4,197,118	-	9,992,298
Mining infrastructure and administration	1,228,686	1,769,789	-	2,998,475
Mine operating income (loss)	(2,593,972)	(3,548,205)	-	(6,142,177)
Corporate and general	-	-	3,338,928	3,883,928
Stock-based compensation	-	-	1,513,191	1,513,191
Amortization	45,389	62,222	230,928	338,539
Operating income (loss) before property write-offs, interest income and foreign exchange difference	(2,639,361)	(3,610,427)	(5,628,047)	(11,877,835)
Additions to property, plant and equipment	991,899	589,740	48,507	1,630,146
Total assets	\$ 12,821,997	\$ 8,113,584	\$ 53,135,558	\$ 74,071,139

18. 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	\$ 25,404,496	\$ 1,500,000
Warrants issued regarding acquisitions	95,990	-
Options issued regarding acquisitions	365,940	-

19. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Under the terms of the Company's leases, the Company is committed to pay a total amount of \$234,873 over a period of between 1 month to 24 months in respect of property and other lease agreements in both Brazil and Canada.

Contingencies

A subsidiary of the Company has been served claims by former employees in Brazil in relation to wrongful dismissal, lost wages, overtime and reimbursement of expenses. Some of these claims are still subject to court judgement, while others are in the process of being appealed. In the opinion of management and on advice of legal counsel, these matters are without merit; however, based on the expected outcome of these claims, some provision has been made for the claims in the financial statements. In addition, a lien was made by a former employee on an asset of the subsidiary to the amount of \$280,000.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

20. SUBSEQUENT EVENTS

Private Placement

On October 14, 2008 the Company closed a private placement of 12,500,000 flow-through shares at \$0.06 per share for proceeds of \$750,000 and 7,500,000 non flow-through shares at \$0.04 per share for proceeds of \$300,000.