



**CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009 AND 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 nine months ended September 30, 2009 and 2008 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**

[See nature of operations and going concern uncertainty (Note 1)]

	Notes	September 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 399,665	\$ 480,197
Restricted cash	20	-	650,299
Accounts receivable		97,330	-
Sundry receivables and prepayments		235,172	188,864
Inventories	4	70,743	122,034
Brazilian taxes and contributions recoverable	5	68,184	59,262
Discontinued operations	8	-	255,424
		871,094	1,756,080
Property, plant and equipment	6	6,498,600	7,016,182
Assets under construction		307,878	1,312,304
Mineral properties	7	12,304,060	21,692,871
Brazilian taxes and contributions recoverable	5	285,570	394,953
Other assets		-	13,680
Discontinued operations	8	-	10,422,514
		\$ 20,267,202	\$ 42,608,584
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Line of credit	9	\$ 750,540	\$ 3,061,500
Accounts payable and accrued liabilities		4,915,692	4,167,574
Discontinued operations:			
Payable in respect of RST acquisition	3, 8	-	10,409,100
Accounts payable and accrued liabilities	8	-	791,124
		5,666,232	18,429,298
Long-term payables		371,012	-
Asset retirement obligations	10	494,381	410,298
Future income tax liabilities		162,964	147,271
<b>Shareholders' Equity</b>			
Common shares	11(a)	127,440,821	127,059,075
Common share purchase warrants	11(b)	9,152	3,180,053
Stock options	11(c)	4,077,829	4,975,888
Contributed surplus	11(d)	6,096,637	1,883,176
Deficit		(124,051,826)	(113,476,475)
		13,572,613	23,621,717
		\$ 20,267,202	\$ 42,608,584

**Commitments and contingencies (Note 21)**

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,	
		2009	2008	2009	2008
Net sales		\$ -	\$ 646,136	\$ 38,157	\$ 6,848,596
Cost of sales		-	1,775,444	38,147	9,992,298
Mine infrastructure and administration		473,407	1,418,736	1,236,729	2,998,475
Mine operating loss	17	(473,407)	(2,548,044)	(1,236,719)	(6,142,177)
Corporate and general		497,319	1,586,763	2,113,748	3,883,928
Stock-based compensation	11(c)	-	49,106	124,100	1,513,191
Amortization		97,722	145,215	269,145	338,539
		(1,068,448)	(4,329,128)	(3,743,712)	(11,877,835)
Foreign exchange gain (loss)		217,893	3,999,324	601,237	(483,932)
Interest income		625	6,170	2,235	89,086
Interest expense		(58,366)	(22,415)	(143,538)	(22,415)
Financing costs		-	(189,176)	-	(189,176)
Provision for Brazilian taxes and contributions recoverable	5	(8,772)	-	103,608	-
(Loss) gain on disposal of property, plant and equipment		(771,709)	-	(429,328)	-
Write-down of properties	7	-	(85,757,394)	(6,623,903)	(85,946,963)
Loss before income taxes		(1,688,777)	(86,292,619)	(10,233,401)	(98,431,235)
Income tax recovery		-	28,086,641	-	28,426,617
<b>Loss from continuing operations</b>		<b>(1,688,777)</b>	<b>(58,205,978)</b>	<b>(10,233,401)</b>	<b>(70,004,618)</b>
Loss from discontinued operations	8	-	-	(341,950)	-
<b>Net loss</b>		<b>(1,688,777)</b>	<b>(58,205,978)</b>	<b>(10,575,351)</b>	<b>(70,004,618)</b>
Deficit, beginning of period		(122,363,049)	(22,650,783)	(113,476,475)	(10,852,143)
<b>Deficit, end of period</b>		<b>\$ (124,051,826)</b>	<b>\$ (80,856,761)</b>	<b>\$ (124,051,826)</b>	<b>\$ (80,856,761)</b>
Basic and diluted loss per common share:					
From continuing operations	16	\$ (0.01)	\$ (0.26)	\$ (0.04)	\$ (0.33)
From discontinued operations	16	-	-	-	-
		\$ (0.01)	\$ (0.26)	\$ (0.04)	\$ (0.33)

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
Net loss		\$ (1,688,777)	\$ (58,205,978)	\$ (10,575,351)	\$ (70,004,618)
Other comprehensive income:					
Reversal of unrealized loss on investments		-	-	-	250,000
Other comprehensive income (loss)		-	-	-	250,000
Comprehensive loss		\$ (1,688,777)	\$ (58,205,978)	\$ (10,575,351)	\$ (69,754,618)

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,	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net loss from continuing operations	\$ (1,688,777)	\$ (58,205,978)	\$ (10,233,401)	\$ (70,004,618)
Amortization and depreciation	97,722	511,310	279,453	2,430,063
Accretion expense	10 5,532	9,064	24,786	25,188
Provision for Brazilian taxes and contributions recoverable	5 8,772	-	(103,608)	-
Gain on disposal of property, plant and equipment	771,709	-	429,328	-
Write-down of properties	7 -	85,757,394	6,623,903	85,946,963
Stock-based compensation	11(c) -	49,106	124,100	1,513,191
Unrealized foreign exchange (gain) loss	(183,212)	(4,149,237)	(798,622)	341,107
Future income tax recovery	-	(28,086,641)	-	(28,426,617)
	(988,254)	(4,114,982)	(3,654,061)	(8,174,723)
Change in non-cash components of working capital:				
(Increase) decrease in accounts receivable	(97,330)	124,515	(97,330)	-
(Increase) decrease in sundry receivables and prepayments	(94,131)	249,115	(40,559)	569,257
Decrease (increase) in sales taxes recoverable	90,606	244,270	204,581	(37,862)
Decrease in inventories	11,406	373,237	40,984	1,175,205
Increase (decrease) in accounts payable and accrued liabilities	463,814	(67,444)	1,539,612	(613,237)
<b>Cash used in operating activities</b>	<b>(613,889)</b>	<b>(3,191,289)</b>	<b>(2,006,773)</b>	<b>(7,081,360)</b>
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(73,660)	(161,127)	(658,657)	(1,518,097)
Proceeds on disposal of property, plant and equipment	-	-	712,127	-
Mineral exploration expenditures	(181,352)	(1,366,168)	(782,785)	(6,532,768)
Restricted cash	-	427,401	650,299	2,678,885
Increase in deferred stripping costs	-	(461,753)	-	(1,016,625)
Proceeds on sale of investment in Lipari Administração de Bens e Participações Ltda.	7 2,893,634	-	4,256,579	-
Acquisitions	3 -	(654,933)	-	(1,700,211)
Decrease (increase) in other assets	9,335	22,841	13,680	(446,508)
<b>Cash (used in) provided by investing activities</b>	<b>2,647,957</b>	<b>(2,193,739)</b>	<b>4,191,243</b>	<b>(8,535,324)</b>
<b>Financing Activities</b>				
(Repayment) issuance of line of credit	(1,769,560)	2,588,800	(1,960,600)	2,588,800
Proceeds from issuance of common shares (net of share issue costs)	-	207,797	-	2,653,713
Repurchase of common shares	-	(18,668)	-	(86,463)
<b>Cash provided by (used in) financing activities</b>	<b>(1,769,560)</b>	<b>2,777,929</b>	<b>(1,960,600)</b>	<b>5,156,050</b>
Cash provided by (used) in continuing operations	264,508	(2,607,099)	223,870	(10,460,634)
Cash used in discontinued operations	8 -	-	(304,402)	-
<b>Net change in cash and cash equivalents</b>	<b>264,508</b>	<b>(2,607,099)</b>	<b>(80,532)</b>	<b>(10,460,634)</b>
Cash and cash equivalents, beginning of period	135,157	3,075,034	480,197	10,928,569
<b>Cash and cash equivalents, end of period</b>	<b>\$ 399,665</b>	<b>\$ 467,935</b>	<b>\$ 399,665</b>	<b>\$ 467,935</b>
Cash and cash equivalents are comprised of the following:				
Cash	\$ 399,665	\$ 467,935	\$ 399,665	\$ 467,935
Short-term investments	-	-	-	-
	<b>\$ 399,665</b>	<b>\$ 467,935</b>	<b>\$ 399,665</b>	<b>\$ 467,935</b>

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## 1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Vaaldiam Resources Ltd. (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. The Company operates in Brazil through its Duas Barras mine in the state of Minas Gerais and its Chapada mine in the state of Mato Grosso. Substantially all of the efforts of the Company are devoted to these business activities.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at September 30, 2009 the Company had no sources of operating cash flows as a result of its decision to place its Duas Barras and Chapada mines on care and maintenance until such time as diamond prices recover or costs are reduced to a level that would allow for positive cash flows from operations. The Company will therefore require additional funding which, if not raised, would result in the further curtailment of activities and project delays. As at September 30, 2009, Vaaldiam had a working capital deficit of \$4,795,138 and had incurred losses since inception resulting in an accumulated deficit of \$124,051,826. The Company’s ability to continue as a going concern is uncertain and is dependent upon its ability to continue to raise adequate financing, to pay down existing debts and to achieve profitable operations in the future. There can be no assurances that the Company will be successful in this regard, and therefore, there is substantial doubt regarding the Company’s ability to continue as a going concern, and accordingly, the use of accounting principles applicable to a going concern. These unaudited interim consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate. If the “going concern” assumption were not appropriate for these unaudited interim consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications, which could be material, would be necessary.

## 2. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“CGAAP”) for interim financial statements on a going concern basis and do not contain all of the disclosures required for annual financial statements. As a result, these unaudited interim 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, 2008 and 2007.

The unaudited interim consolidated financial statements include the accounts of the Company, its subsidiaries and the proportionate share of the accounts of its joint ventures:

<b>Company</b>	<b>Ownership</b>
• Vaaldiam do Brasil Mineração Ltda. (“VBM”);	100%
• Mineração Montes Claros Ltda. (“Montes Claros” or “MMC”);	100%
• Elkedra Diamonds Pty Ltd. (formerly Elkedra Diamonds N.L.) (“Elkedra”);	100%
• Chapada Diamonds Limited (“CDL”);	100%
• Chapada Brasil Mineração Ltda. (“CBM”);	100%
• Great Western Diamonds Corp. (“Great Western”);	100%
• Oleander Financial Inc. (“Oleander”);	100%
• Mineração Fortuna Ltda. (“Fortuna”);	100%
• RST Recursos Minerais Ltda. (“RST”).	100%
• Lipari Mineração Ltda., previously known as Lipari Administração de Bens e Participações Ltda. (“Lipari”)	20%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## **2. BASIS OF PRESENTATION (CONTINUED)**

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

(a) New Accounting Pronouncements:

(i) 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.

(ii) Goodwill and Intangible Assets ("Section 3064")

Effective January 1, 2009, the Company adopted Section 3064. This section provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The adoption of this section did not have a material effect on the Company's financial position or results of operations.

(iii) Credit Risk and the Fair Value of Financial Assets and Liabilities ("EIC-173")

In January 2009 the Emerging Issues Committee ("EIC") issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The adoption of this EIC did not have a material effect on the Company's financial position or results of operations.

(iv) Mining Exploration Costs ("EIC-174")

In March 2009 the EIC issued EIC-174. In this EIC the Committee reached a consensus that a mining enterprise that has not established mineral reserves objectively and, therefore, may not have a basis for preparing a projection of the estimated future net cash flow from the property, is not precluded from considering exploration costs to have the characteristics of property, plant and equipment. The EIC also provides guidance on when impairment should be assessed and what conditions indicate impairment for capitalized exploration costs. This EIC is consistent with the Company's existing accounting policy for capitalization of exploration costs and did not result in any changes to the Company's financial position or results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

### 3. ACQUISITIONS

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.

#### **GREAT WESTERN DIAMONDS CORP.**

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 acquired 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 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	885,792
<b>Purchase price</b>	<b>\$ 26,095,251</b>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

### 3. ACQUISITIONS (CONTINUED)

The purchase price was allocated as follows:

Restricted cash acquired	\$ 3,111,489
Non-cash working capital deficit	(876,346)
Property, plant and equipment	204,878
Mineral properties	29,588,048
Future income taxes	(5,932,818)
Net identifiable assets	\$ 26,095,251

#### RST RECURSOS MINERAIS LTDA.

On July 1, 2008, the Company entered into an agreement with Thanda Vantu – Investimentos E Participações SGPS, S.A. (“Thanda”), Redburn Investments Inc. (“Redburn”), Marrakwene Holding, Investimentos E Participações, Ltda. (“Marrakwene”) and Geraldo Antonio Kulaif (“Geraldo”) to acquire 100% ownership of RST and to acquire the outstanding RST loans from Marrakwene and 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 made a payment consisting of 3,374,185 common shares and cash of US\$500,000 to the vendors of RST (“RST vendors”). As the Company was unable to pay the remaining amount owing to the RST vendors, the Company entered into a settlement agreement with the RST vendors (see Note 8). In July 2009, titles to the property, plant and equipment and the mineral properties of RST were transferred back to the RST vendors as settlement of the US\$8,500,000 payable in respect of RST transaction.

The acquisition was recorded as a business combination. The 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	509,300
Payable	8,658,100
Transaction costs	56,280
Purchase price	\$ 10,303,419

The allocation of the purchase price is as follows:

Cash	\$ 37,431
Non-cash working capital deficit	(231,342)
Property, plant and equipment	7,189,542
Mineral properties	3,307,788
Net identifiable assets	\$ 10,303,419

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

#### 4. INVENTORIES

Inventories at September 30, 2009 and December 31, 2008 are comprised of the following:.

	September 30, 2009	December 31, 2008
Rough diamonds	\$ 5,542	\$ 43,689
Supplies inventory	65,201	78,345
	\$ 70,743	\$ 122,034

#### 5. BRAZILIAN TAXES AND CONTRIBUTIONS RECOVERABLE

Brazilian taxes and contributions recoverable consist of recoverable credits for ICMS, PIS and COFINS. ICMS is the State Value Added Tax imposed by the individual states in Brazil. PIS and COFINS are Federal Contributions for the purposes of social financing. An ICMS taxpayer may recover input tax charged on certain goods and services and PIS and COFINS taxpayers may recover input contributions charged on certain good and services. The charges that are recoverable are in respect of purchases made for the purpose of manufacturing or production of supplies, and can be recovered, amongst other methods, as a deduction from output tax charged on the goods sold, and in the case of PIS and COFINS, can be set off against federal withholding taxes and income taxes. At September 30, 2009, a provision of \$1,988,384 had been made against these taxes and contributions, as it is not certain that these amounts will be recovered due to the cessation of the Company's production activity.

#### 6. PROPERTY, PLANT AND EQUIPMENT

As at September 30, 2009	Cost	Accumulated Depreciation	Net Book Value
Plant and mining equipment	\$ 6,131,446	\$ 630,877	\$ 5,500,569
Leasehold improvements	367,714	134,136	233,578
Exploration and other equipment	936,427	437,009	499,418
Vehicles	101,535	25,132	76,403
Furniture and fixtures	158,079	66,990	91,089
Computers	219,603	122,060	97,543
	\$ 7,914,804	\$ 1,416,204	\$ 6,498,600

As at December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Plant and mining equipment	\$ 6,064,004	\$ 630,877	\$ 5,433,127
Leasehold improvements	367,714	103,677	264,037
Exploration and other equipment	1,495,957	577,715	918,242
Vehicles	390,224	261,919	128,305
Furniture and fixtures	182,776	59,699	123,077
Computers	271,569	122,175	149,394
	\$ 8,772,244	\$ 1,756,062	\$ 7,016,182

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**7. MINERAL PROPERTIES**

	January 1, 2009	Activity	Write-down	Disposal	September 30, 2009
<b>Production properties</b>					
Brazil					
Duas Barras					
Cost	\$ 3,203,525	\$ -	\$ -	\$ -	\$ 3,203,525
Amortization	(1,172,994)	-	-	-	(1,172,994)
	2,030,531	-	-	-	2,030,531
Chapada					
Cost	-	-	-	-	-
Amortization	-	-	-	-	-
	-	-	-	-	-
<b>Exploration properties</b>					
Brazil					
Chapada Exploration Area	2,871,912	17,015	-	-	2,888,927
Braúna	11,076,074	196,036	(6,623,903)	(3,552,128)	1,096,079
Other	9,265	-	-	-	9,265
	13,957,251	213,051	(6,623,903)	(3,552,128)	3,994,271
Canada					
Candle Lake	5,013,617	201,222	-	-	5,214,839
Centennial	186,174	205,374	-	-	391,548
Snowden	225,284	31,225	-	-	256,509
Alberta Area Properties	280,014	136,348	-	-	416,362
	5,705,089	574,169	-	-	6,279,258
<b>Total Production Properties</b>	2,030,531	-	-	-	2,030,531
<b>Total Exploration Properties</b>	19,662,340	787,220	(6,623,903)	(3,552,128)	10,273,529
<b>Total Mineral Properties</b>	\$ 21,692,871	\$ 787,220	\$ (6,623,903)	\$ (3,552,128)	\$ 12,304,060

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**7. MINERAL PROPERTIES (CONTINUED)**

In light of the deteriorating market conditions and the results of operations during 2008, the Company placed the Duas Barras mine and the Chapada mine on care and maintenance until such time as diamond prices recover and costs are reduced to a level that will allow for positive cash flows from operations.

The carrying amounts of all projects were assessed for impairment based on management's assessment of potential indicators of impairment and best estimates of likely courses of action by the Company. The fair values were determined using a variety of valuation methods, the selection of which was based on the method considered most applicable to each project. These methods included discounted cash flows over the life of the asset, reviewing comparable transactions and assessing value per unit of area. The assessment of the carrying value and the determination of these fair values is subject to significant measurement uncertainty and further material write-downs of these assets could occur if actual results differed from the estimates and assumptions used and/or if alternative valuation methods were applied.

On May 26, 2009 Vaaldiam announced the sale of an 80% equity interest in the Braúna diamond project to an arm's length private group. Under the terms of agreement, Vaaldiam received a cash payment of \$3.8 million (US\$3.3 million) and is being carried through the next phase of development on the Braúna property, of which Vaaldiam's share payable by the purchasers is \$0.4 million for a bulk sampling program with an estimated cost of \$2 million. Included in the program costs are approximately \$0.9 million of Vaaldiam's current liabilities associated with capital equipment purchases which would be paid out of the program funds by the purchasers during the third quarter of 2009. Vaaldiam will remain operator of the joint venture during the period of the bulk sampling program. Under the terms of the agreement, the cash component of the transaction was paid in tranches as follows:

- i) US\$660,000 upon execution of the Letter of Intent;
- ii) US\$990,000 payable upon the execution of the formal agreements relating to the transaction; and
- iii) US\$1,650,000 30 days following the execution of the formal agreements.

During July 2009 Vaaldiam signed a joint venture agreement with the private group and transferred title to the Braúna diamond property to Lipari, a joint venture company in which Vaaldiam holds a 20% equity interest while the private group holds an 80% equity interest. Vaaldiam can increase its interest in the project to 49% following the completion of the next phase of development by reimbursing the private group 100% of their costs incurred to that date. The agreement also allows Vaaldiam to retain the rights to the gold potential of the Braúna project area, however, the joint venture will have ownership of any by-product gold recovered as a consequence of diamond mining activities.

In June 2009, the carrying value of the Brauna property was written down by \$6,623,903 to reflect the implied fair value of the property based on the arm's length transaction. As at September 30, 2009, the Brauna property is carried at \$1,096,079, representing the Company's 20% interest in the project.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## 8. DISCONTINUED OPERATIONS

In January 2009, the Company reached a settlement agreement in principle with Thanda, Redburn, Marrakwene and Geraldo whereby all of the real property, fixed assets, equipment, concessions, mineral rights and licences of RST would be transferred to Marrakwene. In exchange, the remaining US\$8.5 million due on the RST acquisition, made up of the loans payable to Marrakwene and Redburn, and the amount due to an RST supplier, would be transferred to Marrakwene. No other obligations remain under the original acquisition agreement.

In July 2009, titles to the property, plant and equipment and the mineral properties of RST were transferred back to the vendors of RST as settlement of the US\$8,500,000 payable in respect of RST transaction.

The results of operations of RST had been reported separately as "Discontinued operations" for the period from January 1, 2009 to June 30, 2009. Effective July 1, 2009, the remaining operations of RST are included in the Company's continuing operations.

Discontinued operations include the following amounts:

	As at September 30, 2009	As at December 31, 2008
Current assets		
Sundry receivables and prepayments	\$ -	\$ 2,157
Inventories	-	253,267
		255,424
Property, plant and equipment	-	7,095,595
Mineral properties	-	3,326,461
Brazilian taxes and contributions recoverable	-	458
Total assets	-	10,677,938
Accounts payable and accrued liabilities	-	(791,124)
Long-term payables	-	-
Net assets	\$ -	\$ 9,886,814

Nine months ended September 30	2009 <sup>2</sup>	2008 <sup>1</sup>
Net sales	\$ 13,203	\$ -
Cost of sales	4,585	-
Mine operating income	8,618	-
Corporate and general	350,568	-
Net loss from discontinued operations	\$ (341,950)	\$ -

<sup>1</sup> The results of operations of RST for 2008 were included in the Company's results beginning July 1, 2008.

<sup>2</sup> Effective July 1, 2009 the remaining operations of RST are included in the Company's continuing operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## 9. LINE OF CREDIT

In September 2008, the Company obtained an unsecured revolving line of credit of US\$2,500,000. Interest for this line of credit is payable quarterly and is determined based on the three-month US\$ LIBOR rate plus 2.75% on the date of each drawdown. Under the terms of the agreement, the creditor may demand repayment at any time by providing 90 days written notice. As at September 30, 2009, the Company had an outstanding balance of US\$700,000.

## 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. The Company has estimated the net present value of the obligations using discount rates between 8.2% and 10%. The total closure and reclamation costs are estimated at R\$1,156,000 to be incurred between 2012 and 2014.

Changes to the asset retirement obligation during the year are as follows:

Balance, January 1, 2009	\$	410,298
Accretion expense		24,786
Foreign exchange		59,297
Balance, September 30, 2009	\$	494,381

## 11. SHARE CAPITAL

Authorized – Unlimited number of common shares, no par value

### (a) Common Shares

	Notes	Shares	Amount
Balance, January 1, 2009		245,052,668	\$ 127,059,075
Private placements	(i)	9,530,669	381,746
Balance, September 30, 2009		254,583,337	\$ 127,440,821

- (i) In June 2009, the Company issued 9,530,669 common shares to certain creditors as settlement for \$381,746 of outstanding accounts payable.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**11. SHARE CAPITAL (CONTINUED)**

**(b) Common Share Purchase Warrants**

	Notes	Warrants	Amount
Balance, January 1, 2009		28,666,069	\$ 3,180,053
Repricing of outstanding warrants	(i)	-	(3,080,197)
Expired		(27,522,069)	(90,704)
Balance, September 30, 2009		1,144,000	\$ 9,152

- (i) On January 9, 2009, the Company reduced the exercise prices of unexercised, outstanding warrants to \$0.08. All other terms and conditions of the warrants remain unchanged. Exercise prices were not amended for any warrants held by insiders of the Company.

The following is a summary of the unexercised warrants as at September 30, 2009:

Date of Issue	Expiry Date	Number Outstanding	Exercise Price
November 20, 2007	May 31, 2010	1,144,000	\$ 0.08

**(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 normally vest immediately upon issue or three months after commencement of employment or contract, whichever is later.

	Options	Weighted Average Exercise Price	Fair Value
Options outstanding as at January 1, 2009	14,724,500	\$ 0.62	\$ 4,975,888
Granted	8,500,000	0.05	144,500
Expired and forfeited	(3,730,000)	0.49	(1,042,559)
Options outstanding as at September 30, 2009	19,494,500	\$ 0.40	\$ 4,077,829

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**11. SHARE CAPITAL (CONTINUED)**

Stock options outstanding and exercisable as at September 30, 2009 are as follows:

Exercise Price	Outstanding	Weighted Average Life (Years)
\$ 0.05	8,000,000	4.29
0.17	200,000	3.77
0.40	40,000	0.21
0.45	5,010,000	3.41
0.50	263,000	0.26
0.58	650,000	0.17
0.75	1,380,000	1.30
0.84	180,000	1.11
0.85	1,975,000	2.24
0.91	650,000	0.17
0.95	472,500	2.44
0.97	50,000	1.69
0.99	234,000	0.25
1.02	180,000	2.40
1.37	75,000	1.55
1.44	135,000	1.90
	19,494,500	3.13

During the nine months ended September 30, 2009, the Company recognized stock based compensation expense of \$124,100 (2008: \$1,513,191) and capitalized \$20,400 (2008: \$694,135) to mineral properties. The weighted average fair value of the options granted during the year was \$0.02 per option based on the Black-Scholes option pricing model using the following assumptions:

	2009	2008
Risk-free interest rate	1.96%	3.33 - 3.45%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	84.27%	65.57 - 65.6%
Expected life of options	5 years	5 years

As at September 30, 2009, the remaining number of common shares available for issuance under the stock option plan was 5,963,833.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**11. SHARE CAPITAL (CONTINUED)**

**(d) Contributed Surplus**

Balance, January 1, 2009	\$ 1,883,176
Options expired and forfeited	1,042,559
Warrants expired	90,704
Repricing of outstanding warrants	3,080,197
Balance, September 30, 2009	\$ 6,096,637

**12. SUMMARY OF SECURITIES AS AT SEPTEMBER 30, 2009**

Common shares outstanding	254,583,337
Unexercised options to acquire common shares	19,494,500
Unexercised warrants to acquire common shares	1,144,000
Fully diluted shares outstanding	275,221,837

**13. MANAGEMENT OF CAPITAL**

As at September 30, 2009, the Company had a working capital deficit of \$4,795,138 and had incurred losses since inception resulting in an accumulated deficit of \$124,051,826. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to continue to raise adequate financing and to achieve profitable operations in the future.

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 mines 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, makes changes to its capital structure as deemed appropriate under the specific circumstances.

As at September 30, 2009, the Company has drawn down a total amount of US\$700,000 of a revolving line of credit (see Note 9), and is in the process of seeking alternative financing and disposing of certain assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## **14. FINANCIAL INSTRUMENTS**

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

At September 30, 2009, a 10 percent change in the exchange rate between the Canadian dollar and the US dollar with all other variables held constant would result in a change of \$0.1 million in net income. Similarly, a 10 percent change in the exchange rate between the Canadian dollar and the Brazilian real with all other variables held constant would result in a change of \$0.4 million in net income.

### **(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 13 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 endeavour 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 CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## 15. 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:

<b>Nine months ended September 30</b>	<b>2009</b>	<b>2008</b>
Management and consulting fees paid or payable to a company controlled by the:		
Former Vice President, Business Development <sup>1,2</sup>	\$ -	\$ 166,558
Former Vice President, Technical Services <sup>1</sup>	-	169,768
	<b>\$ -</b>	<b>\$ 336,326</b>

<sup>1</sup> Effective November 2008, the former Vice President, Business Development and former Vice President, Technical services are no longer officers of the Company.

<sup>2</sup> The former Vice President, Business Development continues to serve as a member of the Board of Directors.

Included in accounts payable and accrued liabilities is a promissory note of US\$58,192 from Zoneplan Limited, a wholly owned subsidiary of Santa Elina Mining Corporation ("SEMC"), which is Vaaldiam's largest shareholder. The promissory note is interest-free and is due and payable in 90 days upon demand. In addition, SEMC has made payments of approximately \$82,000 on behalf of the Company for expenditures in Brazil.

## 16. 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, 2009 was 249,716,862 (2008: 215,320,122). 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.

## 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. The Company considers each mine as a separate business unit because the recovered diamond grade and the quality and size of the diamonds recovered varies significantly between the two mines.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**17. SEGMENTED INFORMATION (CONTINUED)**

<b>Three months ended September 30, 2009</b>	<b>Duas Barras</b>		<b>Chapada</b>		<b>Corporate and Other</b>		<b>Total</b>	
Net sales	\$	-	\$	-	\$	-	\$	-
Cost of sales (including cost of production)		-		-		-		-
Mine infrastructure and administration		230,061		243,346		-		473,407
Mine operating loss		(230,061)		(243,346)		-		(473,407)
Corporate and general		-		-		497,319		497,319
Stock-based compensation		-		-		-		-
Amortization		72,273		11,844		13,605		97,722
Operating loss before property write-downs, interest income and foreign exchange	\$	(302,334)	\$	(255,190)	\$	(510,924)	\$	(1,068,448)
Additions to property, plant and equipment	\$	-	\$	-	\$	-	\$	-

<b>Three months ended September 30, 2008</b>	<b>Duas Barras</b>		<b>Chapada</b>		<b>Corporate and Other</b>		<b>Total</b>	
Net sales	\$	446,295	\$	199,841	\$	-	\$	646,136
Cost of sales (including cost of production)		1,499,698		275,746		-		1,775,444
Mine infrastructure and administration		481,643		937,093		-		1,418,736
Mine operating profit (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 loss before property write-downs, interest income and foreign exchange	\$	(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 CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**17. SEGMENTED INFORMATION (CONTINUED)**

<b>Nine months ended September 30, 2009</b>	<b>Duas Barras</b>		<b>Chapada</b>		<b>Corporate and Other</b>		<b>Total</b>
Net sales	\$	38,157	\$	-	\$	-	\$ 38,157
Cost of sales (including cost of production)		38,147		-		-	38,147
Mine infrastructure and administration		640,425		596,304		-	1,236,729
Mine operating loss		(640,415)		(596,304)		-	(1,236,719)
Corporate and general		-		-		2,113,748	2,113,748
Stock-based compensation		-		-		124,100	124,100
Amortization		138,823		35,534		94,788	269,145
Operating loss before property write-downs, interest income and foreign exchange	\$	(779,238)	\$	(631,838)	\$	(2,332,636)	\$ (3,743,712)
Additions to property, plant and equipment	\$	-	\$	-	\$	22,489	\$ 22,489
Total assets, excluding assets of discontinued operations	\$	5,661,419	\$	3,121,825	\$	11,483,958	\$ 20,267,202

<b>Nine months ended September 30, 2008</b>	<b>Duas Barras</b>		<b>Chapada</b>		<b>Corporate and Other</b>		<b>Total</b>
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
Mine infrastructure and administration		1,228,686		1,769,789		-	2,998,475
Mine operating profit (loss)		(2,593,972)		(3,548,205)		-	(6,142,177)
Corporate and general		-		-		3,883,928	3,883,928
Stock-based compensation		-		-		1,513,191	1,513,191
Amortization		45,389		62,222		230,928	338,539
Operating loss before property write-downs, interest income and foreign exchange	\$	(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, excluding assets of discontinued operations	\$	12,821,997	\$	8,113,584	\$	53,135,558	\$ 74,071,139

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

**18. INTERESTS IN JOINT VENTURES**

In July 2009, the Company sold an 80% interest in the Brauna diamond project and entered into a joint venture agreement (see Note 7). As a result, the following amounts have been included in the Company's unaudited interim financial statements as at September 30, 2009 and for the nine months then ended:

	As at September 30, 2009	As at December 31, 2008
Current assets	\$ 39,923	\$ -
Long-term assets	1,242,855	-
Current liabilities	169,811	-
<hr/>		
Nine months ended September 30	2009	2008
Revenues	\$ -	\$ -
Expenses	16,375	-
Net loss	\$ 16,375	\$ -

**19. SUPPLEMENTARY CASH FLOW INFORMATION**

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

Nine months ended September 30	2009	2008
Common shares issued in respect of acquisitions	\$ -	\$ 25,404,496
Common shares issued in respect of accounts payable	381,746	-
Warrants issued in respect of acquisitions	-	95,990
Options issued in respect of acquisitions	-	365,940

**20. FLOW-THROUGH COMMON SHARES**

Cash proceeds from the issuance of flow-through common shares are required to be spent on eligible Canadian Exploration Expenditures. As at September 30, 2009, the Company is required to spend an additional \$309,489 in eligible Canadian Exploration Expenditures before December 31, 2009. Should the Company not meet this obligation, it may need to indemnify the subscribers of the flow through shares from any tax consequences.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**

## 21. COMMITMENTS AND CONTINGENCIES

### Lease Commitments

Under the terms of the Company's operating lease agreements, the Company is committed to pay the following minimum amounts in Brazil and Canada:

<b>Twelve months ended</b>		
September 30, 2010	\$	141,077
September 30, 2011		122,842
September 30, 2012		115,663
September 30, 2013		117,118
September 30, 2014		117,360
Thereafter		24,744
Total	\$	638,804

### Contingencies

Subsidiaries of the Company have 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 judgment, 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 potential outcome of these claims, a provision has been made for the claims in the unaudited interim consolidated financial statements. In addition, a lien was made by a former employee on an asset of the subsidiary to the amount of approximately \$265,000.