



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2010 AND 2009**

All dollar figures are quoted in Canadian dollars unless otherwise specified

VAALDIAM MINING INC.
CONSOLIDATED BALANCE SHEETS AS AT

(Expressed in thousands of Canadian dollars)	Notes	June 30, 2010 (unaudited)	December 31, 2009 (audited)
ASSETS			
Current Assets			
Cash and cash equivalents	8	\$ 10,478	\$ 1,262
Short-term investments	8	-	10,057
Sundry receivables and prepayments		537	238
Inventories	9	99	-
Brazilian taxes and contributions recoverable	10	74	-
Due from associated company	5	150	-
Current portion of long-term loan	11	64	71
Assets held for sale	7	-	6,679
		11,402	18,307
Long-term loan	11	719	681
Brazilian taxes and contributions recoverable	10	156	-
Property, plant and equipment	6	6,518	89
Mineral properties	7	5,949	-
Other assets		138	-
Investments	4	1,017	1,969
Investments in associated companies	5	2,880	1,673
		\$ 28,779	\$ 22,719
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 3,319	\$ 571
		3,319	571
Long-term liabilities	13	417	-
Asset retirement obligations	14	520	-
Shareholders' Equity			
Common shares	15(a)	194,259	187,210
Contributed surplus	15(e)	3,718	3,702
Deficit		(171,921)	(167,985)
Accumulated other comprehensive loss	16	(1,533)	(779)
		24,523	22,148
		\$ 28,779	\$ 22,719

Commitments and contingencies (Note 21)

Subsequent events (Notes 5 and 7)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"signed"

Jean-Charles Potvin
Chairman

"signed"

Roland Bertin
Director

VAALDIAM MINING INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT

(Expressed in thousands of Canadian dollars)	Notes	For the six months ended June 30, 2010 (unaudited)	For the year ended December 31, 2009 (audited)
Common shares			
Balance at beginning of period		\$ 187,210	\$ 187,075
Issued on acquisition of Vaaldiam Resources Ltd.	3	6,346	-
Issued through share bonus scheme		700	135
Cashless stock options		3	-
Balance at end of period	15(a)	194,259	187,210
Contributed surplus			
Balance at beginning of period		3,702	3,811
Issued through share bonus scheme		-	(84)
Stock option market price adjustment		16	(25)
Balance at end of period	15 (e)	3,718	3,702
Deficit			
Balance at beginning of period		(167,985)	(132,616)
Net loss for the period		(3,936)	(35,369)
Balance at end of period		(171,921)	(167,985)
Accumulated other comprehensive loss			
Balance at beginning of period		(779)	-
Loss on disposal of available-for-sale securities (net of tax of \$NIL)	4	19	-
Unrealized loss on available-for-sale securities(net of tax of \$NIL)	4	(773)	(779)
Balance at end of period		(1,533)	(779)
Total shareholders' equity at end of period		\$ 24,523	\$ 22,148

See accompanying notes to consolidated financial statements.

VAALDIAM MINING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT FOR THE THREE AND SIX MONTHS ENDED JUNE 30 (Unaudited)

(Expressed in thousands of Canadian dollars)	Notes	Three Months Ended		Six Months Ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Mine administration		\$ 263	\$ -	\$ 263	\$ -
Corporate and general		1,346	1,600	1,990	2,644
Stock-based compensation	15(d)	(105)	(60)	719	(25)
General exploration		-	43	-	101
		1,504	1,583	2,972	2,720
Foreign exchange loss (gain)		(35)	188	86	124
Interest and other income		(85)	(22)	(130)	(71)
Interest expense		5	1	5	3
Amortization		67	47	84	96
Recovery of Brazilian taxes and contributions recoverable		(17)	-	(17)	-
Kwale project	7	(38)	223	50	447
Gain on sale of mineral property	7	-	-	(572)	-
Loss on disposal of property, plant and equipment		1	35	1	35
Loss on disposal of investments		19	-	19	-
Impairment of loan receivable		-	-	-	227
Equity loss of associated company	5	244	176	405	297
Gain on dilution of associated company	5	-	-	(429)	-
Transaction costs	3	17	-	721	-
Severance costs		-	-	741	-
Loss before income taxes		1,682	2,231	3,936	3,878
Income tax provision (recovery)		-	-	-	-
Net loss for the period		1,682	2,231	3,936	3,878
Deficit, beginning of period		170,239	134,263	167,985	132,616
Deficit, end of period		\$ 171,921	\$ 136,494	\$ 171,921	\$ 136,494
Basic and diluted loss per common share	20	\$ 0.02	\$ 0.05	\$ 0.06	\$ 0.08
Weighted average number of common shares outstanding	20	71,388,177	48,047,158	61,554,003	48,064,364
Net loss for the period		1,682	2,231	3,936	3,878
Loss on disposal of available-for-sale securities (net of tax of \$NIL)		(19)	-	(19)	-
Unrealized loss on available-for-sale securities (net of tax of \$NIL)		763	115	773	150
Comprehensive loss for the period		\$ 2,426	\$ 2,346	\$ 4,690	\$ 4,028

See accompanying notes to consolidated financial statements.

VAALDIAM MINING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE AND SIX MONTHS ENDED JUNE 30 (Unaudited)

(Expressed in thousands of Canadian dollars)	Notes	Three Months Ended		Six Months Ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Operating Activities					
Net loss for the period		\$ (1,682)	\$ (2,231)	\$ (3,936)	\$ (3,878)
Amortization		67	47	84	96
Accretion of asset retirement obligation	14	11	-	11	-
Stock-based compensation	15 (d)	(105)	(60)	719	(25)
Unrealized foreign exchange loss		18	(156)	124	(108)
Interest and commission income on Freegold loan		-	1	-	(67)
Accretion of Freegold loan		(16)	-	(32)	-
Gain on sale of mineral property	7	-	-	(572)	-
Loss on disposal of property, plant and equipment		1	35	1	35
Loss on disposal of investments		19	-	19	-
Leasehold expenses written off		-	3	-	9
Equity loss of associated company	5	244	176	405	297
Gain on dilution of associated company	5	-	-	(429)	-
		(1,443)	(2,185)	(3,606)	(3,641)
Change in non-cash components of working capital:					
Decrease (increase) in sundry receivables and prepayments		(43)	468	49	556
Increase in Brazilian taxes and contributions recoverable		(58)	-	(58)	-
Increase (decrease) in accounts payable and accrued liabilities		(2,016)	117	(2,425)	(1,336)
Increase in due to related party		-	170	-	409
Increase in inventories		(2)	-	(2)	-
Cash used in operating activities		(3,562)	(1,430)	(6,042)	(4,012)
Investing Activities					
Purchase of property, plant and equipment		(412)	-	(412)	(2)
Proceeds on disposal of mineral property		-	-	7,250	-
Proceeds on disposal of property, plant and equipment		1	-	1	-
Proceeds on disposal of investments		29	-	29	-
Investment in Flemish Gold corp.	5	-	-	-	(1,424)
Acquisition of Vaaldiam Resources Ltd.	3	-	-	(711)	-
Decrease (increase) in other assets		72	-	(138)	-
Short term investments		-	-	10,057	-
Cash provided by (used in) investing activities		(310)	-	16,076	(1,426)
Financing Activities					
Payment on line of credit	12	(718)	-	(718)	-
Payment on capital lease obligations		-	(9)	-	(16)
Cash used in financing activities		(718)	(9)	(718)	(16)
Effect of foreign exchange on cash		6	(22)	(100)	(12)
Net increase (decrease) in cash and cash equivalents during the period		(4,584)	(1,461)	9,216	(5,466)
Cash and cash equivalents, beginning of period		15,062	15,295	1,262	19,300
Cash and cash equivalents, end of period		\$ 10,478	\$ 13,834	\$ 10,478	\$ 13,834

Supplemental cash flow information (Note 22)

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

1. NATURE OF OPERATIONS

Vaaldiam Mining Inc., (the “Company” or “Vaaldiam Mining”) (TSX: VAA), previously Tiomin Resources Inc. (“Tiomin”), is a publicly held company incorporated under the Canada Business Corporations Act listed on the Toronto Stock Exchange (“TSX”). The Company had been a development stage enterprise with no significant revenue from operations until March 23, 2010, when it acquired Vaaldiam Resources Ltd. (“Vaaldiam Resources”), a TSX-listed diamond producer and developer, and changed its name from Tiomin Resources Inc. to Vaaldiam Mining Inc. The Company is engaged in the investigation, acquisition, exploration and development of mineral properties and, as a result of the acquisition of Vaaldiam Resources, is engaged in diamond mining operations in Brazil. 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 June 30, 2010, the Company had working capital of \$8,083,000 and had incurred losses since inception resulting in an accumulated deficit of \$171,921,000. As at June 30, 2010 the Company had no sources of operating cash flows and may require additional financing to fund the development of its properties and to commence 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 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, 2009 and 2008.

The unaudited interim consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries:

- Tiomin Minerals Ltd. (“TML”);
- Tiomin Kenya Ltd. (“TKL”);
- Tiomin China Ltd. (“TCL”);
- Vaaldiam Resources Ltd. (“VRL”);
- Vaaldiam do Brasil Mineração Ltda. (“VBM”);
- Mineração Montes Claros Ltda. (“MMC”);
- 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”).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

2. BASIS OF PRESENTATION (CONTINUED)

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

The unaudited interim consolidated financial statements for the three and six months ended June 30, 2010 and 2009 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:

Changes in Accounting Policies:

Business Combinations, Consolidations, and Non-Controlling Interests

In January 2009, the Accounting Standards Board ("AcSB") issued the following new standards: 1582 – *Business Combinations*, 1601 – *Consolidations*, and 1602 – *Non-Controlling Interests*. These standards will be effective for fiscal years beginning on or after January 1, 2011, and early application is encouraged. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent of International Financial Reporting Standard ("IFRS") 3, *Business Combinations*. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, *Consolidated and Separate Financial Statements*. The Company has early adopted these new standards effective January 1, 2010 and has applied this to the business combination that occurred effective March 23, 2010. As a result of early adoption of these new standards, all costs associated with the March 23, 2010 business combination have been expensed as transaction costs and have not been capitalized. Early adoption of these Sections 1601 and 1602 did not have any other impact on these consolidated financial statements.

3. ACQUISITIONS

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

VAALDIAM RESOURCES LTD.

On December 11, 2009, the Company subscribed for 5,000,000 common shares of Vaaldiam Resources at a price of \$0.03 per share. On January 15, 2010, the Company further subscribed for 20,000,000 common shares of Vaaldiam Resources at a price of \$0.03 per share, and announced that it has entered into a definitive agreement to acquire, via a plan of arrangement, all of the outstanding common shares of Vaaldiam Resources that it did not already own in an all-share transaction ("Transaction") on the basis of 0.8 of a Tiomin common share for each Vaaldiam Resources common share.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

3. ACQUISITIONS (CONTINUED)

On March 15, 2010, at the respective special meetings of shareholders held by Tiomin and Vaaldiam Resources, shareholders approved the Transaction. At the Tiomin shareholders' meeting, the shareholders also approved a name change to Vaaldiam Mining Inc. and a share consolidation (the "Consolidation") on the basis of one new Vaaldiam common share for ten existing common shares. All prior period information has been adjusted to reflect this consolidation. On March 18, 2010, the Company received final court approval from the Ontario Superior Court of Justice and the arrangement became effective on March 23, 2010. Vaaldiam Resources was delisted on March 26, 2010. On the same day, Vaaldiam Mining commenced trading on the TSX under the symbol VAA.

Vaaldiam Resources owns two mines that had been placed on care and maintenance due to the global economic conditions and decline in diamond prices, as well as advanced stage exploration properties. The acquisition was made to derive value to the Company's shareholders by gaining access to these properties and with diamond prices now on the rise, to restart production at one of the mines.

The acquisition was accounted for as a business combination and the purchase price was calculated as follows:

(\$000's)	
Common shares issued (211,532,258 common shares at cost of \$0.03 per share)	\$ 6,346
Fair value of 91,520 warrants and 713,724 options issued	-
Cash paid for 25,000,000 Vaaldiam Resources shares	750
Payments to dissenting shareholder and small lot holders	98
Share issuance cost	13
Purchase price	\$ 7,207

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

(\$000's)	Pre-acquisition carrying amounts	Fair value adjustments	Fair value at acquisition date
Non-cash working capital deficit	\$ (5,226)	\$ -	\$ (5,226)
Property, plant and equipment	6,103	-	6,103
Mineral properties	4,929	1,020	5,949
Other assets and investment	1,292	-	1,292
Other liabilities	(911)	-	(911)
Net identifiable assets	\$ 6,187	\$ 1,020	\$ 7,207

The preliminary allocation of the purchase price is based on internal management estimates. 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.

During the six months ended June 30, 2010, the Company expensed \$721,000 of transaction costs related to the acquisition of Vaaldiam.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

4. INVESTMENTS

(\$000's)	Carrying Value		Unrealized loss in Other Comprehensive Loss	
	Cost	Carrying Value	Cost	Comprehensive Loss
Freegold Ventures Ltd.	\$ 2,155	\$ 847	\$ 2,155	\$ 1,308
Western Standard Metals Ltd.	395	170	395	225
	\$ 2,550	\$ 1,017	\$ 2,550	\$ 1,533

Freegold Ventures Ltd.

As described in note 11, on January 15, 2009, the Company received 250,000 common shares in Freegold Ventures Ltd. ("Freegold") (TSX: ITF, OTCBB: FGOVF, Frankfurt: FR4) as a commission for the extension of a bridge loan facility to Freegold. On July 15, 2009, as a commission for further extensions to the loan, the Company received 360,000 Freegold common shares. On October 1, 2009, the Company received 16,714,773 additional Freegold common shares on the conversion of debt advanced to Freegold.

In May 2010, the Company sold 380,000 shares of Freegold for proceeds of \$29,000, resulting in a realized loss of \$19,000 and the corresponding reversal of \$19,000 of unrealized loss that was previously recorded in Other Comprehensive Loss. As at June 30, 2010, the Company held 16,944,773 common shares, which are considered an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$1,308,000 being recorded in Other Comprehensive Loss due to the change in the market value (note 16).

Western Standards Metals Ltd.

As described in note 11, on October 1, 2009, the Company received 1,000,000 common shares of Western Standard Metals Ltd. ("Western Standard") (TSX-V: WSM) as part of the Freegold transaction.

As at June 30, 2010, the Company held 1,000,000 common shares, which are considered an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$225,000 being recorded in Other Comprehensive Loss due to the change in market value (note 16).

5. INVESTMENTS IN ASSOCIATED COMPANIES

(\$000's)	June 30, 2010		December 31, 2009	
	Cost	Carrying Value	Cost	Carrying Value
Flemish Gold Corp.	\$ 1,701	\$ 1,701	\$ 1,673	\$ 1,673
Lipari Mineração Ltda.	1,179	-	-	-
	\$ 2,880	\$ 1,701	\$ 1,673	\$ 1,673

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

5. INVESTMENTS IN ASSOCIATED COMPANIES (CONTINUED)

Flemish Gold Corp. (Formerly Kivu Gold Corp.)

Flemish Gold Corp. ("Flemish") is a private corporation incorporated under the Canada Business Corporations Act focusing on precious metals exploration in sub-Saharan Africa. On February 14, 2008, the Company acquired by way of a private placement 4,000,000 common shares of Flemish ("Flemish shares") at \$0.50 per common share, representing approximately 16.9% of the then issued and outstanding common shares of Flemish and 4,000,000 Flemish share purchase warrants which have since expired unexercised. As there are common directors in both Flemish and the Company, non-related directors of the Company approved the investment based on their review and analysis, which included receiving an independent fairness opinion.

On February 20, 2009, by way of a private placement ("February 2009 Placement"), the Company increased its holding by 6,625,000 common shares at a price of \$0.215 per common share, thereby increasing its ownership to approximately 33.5% of the then outstanding Flemish shares.

On completion of the February 2009 Placement, the Company determined that it has significant influence over Flemish and was required to adopt the equity method of accounting.

During the year ended December 31, 2009, the Company recorded \$481,000 as an equity loss and \$130,000 as a write-down in the carrying value of the investment as an other than temporary decline.

The Company's ownership percentage in Flemish decreased to 30.81% in October 2009. During January 2010, Flemish issued an additional 70,000 common shares at \$0.25 per share and during February 2010 issued an additional 3,739,000 common shares at \$0.50 per share reducing the Company's ownership to 27.75% and resulting in a dilution gain of \$429,000. During the six months ended June 30, 2010, the Company recorded an equity loss of \$401,000 on the investment in Flemish. Since then, Flemish had raised additional equity through a private placement at \$0.75 per share, in which the Company did not participate, and as a result, the Company's ownership has been diluted to 22.59%.

Lipari Mineração Ltda.

The Company holds a 20% interest in the Braúna project with an option to increase its interest in the project up to 49% following the completion of the next phase of development by reimbursing all costs incurred to date to the joint venture partners. The mineral rights are held by Lipari Mineração Ltda. ("LML"), a Brazilian-registered company owned by the joint venture partners in proportion to their respective interest in the project. The investment is accounted for as an equity investment.

During the six months ended June 30, 2010, the Company recorded an equity loss of \$4,000 on the investment in LML. At June 30, 2010, the Company had a receivable from LML of \$150,000.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

6. PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2010				
(\$000's)	Cost	Accumulated Depreciation	Net Book Value	
Plant and mining equipment	\$ 5,427	\$ -	\$ 5,427	
Leasehold improvements	176	3	173	
Exploration and other equipment	856	228	628	
Vehicles	265	155	110	
Furniture and fixtures	181	89	92	
Computers and software	357	269	88	
	\$ 7,262	\$ 744	\$ 6,518	

As at December 31, 2009				
(\$000's)	Cost	Accumulated Depreciation	Net Book Value	
Exploration and other equipment	\$ 218	\$ 173	\$ 45	
Vehicles	157	152	5	
Furniture and fixtures	101	82	19	
Computers and software	280	260	20	
	\$ 756	\$ 667	\$ 89	

7. MINERAL PROPERTIES

(\$000's)	January 1, 2010	Additions	Acquisitions	June 30, 2010
Production properties				
Brazil				
Duas Barras	\$ -	\$ -	\$ 3,051	\$ 3,051
Chapada	-	-	-	-
	-	-	3,051	3,051
Exploration properties				
Brazil				
Chapada Exploration Area	-	-	2,889	2,889
Catalão	-	-	9	9
	-	-	2,898	2,898
Total Mineral Properties	\$ -	\$ -	\$ 5,949	\$ 5,949

In March 2010, following the acquisition of Vaaldiam Resources as described in note 3, the Company acquired two diamond mines and exploration properties in Brazil. During 2008, both mines were placed 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

7. MINERAL PROPERTIES (CONTINUED)

Duas Barras Mine, Minas Gerais, Brazil

The Duas Barras mine is an alluvial diamond deposit located about 150 kilometres north of the town of Diamantina in the state of Minas Gerais, Brazil. The Company, through its wholly owned subsidiary MMC, owns a 100% interest in the deposit. A royalty of 6% of gross sales revenues is payable to the owner of the surface rights. Mining and processing operations had been suspended since October 2008 due to the weak diamond markets which were caused by the global economic crisis. In light of the much improved rough diamond markets, the Company is on its way to restarting production during the third quarter of 2010. Improvements have been made to the plant and the plant commissioning has begun.

Chapada, Mato Grosso, Brazil

The Chapada mine is located about 80 kilometres northeast of the city of Cuiabá in the state of Mato Grosso, Brazil. Mining operations have been suspended since the end of June 2008, the end of the contract mining term, in order to finance and convert the mining operation from contract mining to a company owned mining operation. The Chapada mine stayed suspended and was placed on a care and maintenance basis due to the global economic crisis.

Braúna, Bahia, Brazil

The Braúna project is located in the state of Bahia near the town of Nordestina. Four diamond bearing kimberlites have been discovered on the property to date.

The Company holds a 20% interest in the Braúna diamond project through LML which holds the mineral rights to the property. The Company also holds 100% of the rights relating to the gold potential of the Braúna property, with the exception of any by-product gold produced as a result of diamond mining activities.

Kwale, Kenya

The Kwale project covers is located about 40 kilometres south of Mombasa, approximately 10 kilometres inland from the Indian Ocean coastline. It consists of three large Aeolian dunes containing quantities of the heavy minerals ilmenite, rutile and zircon and is owned 100% by TKL, a wholly owned subsidiary of the Company.

The Company entered into a Memorandum of Understanding (“MOU”) with the Jinchuan Group Ltd. (“Jinchuan”) on July 28, 2008 and an Investment Agreement (“IA”) on August 31, 2009 whereby Jinchuan was to acquire 70% of TKL by investing US\$25 million into TKL and to procure all financing, on normal commercial terms, to develop the Kwale project. Before the transaction closed, Jinchuan terminated the IA on October 27, 2009 and this resulted in an other than temporary impairment to the Kwale project. The Company wrote off an amount of \$30,267,000, being all the costs associated with the Kwale project as at December 31, 2009, and also reversed amounts owing to Jinchuan and to the Canadian International Development Agency (“CIDA”). During the quarter ended June 30, 2010, an amount of \$88,000 related to care and maintenance at the Kwale project was recorded as expense (2009 - \$224,000).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

7. MINERAL PROPERTIES (CONTINUED)

On February 24, 2010, Vaaldiam Mining and Base Iron Limited (“BIL”) (ASX: BSE) signed a binding heads of agreement (“HoA”) for a transaction in which BIL would acquire Kwale, all the intellectual property associated with Vaaldiam Mining’s mineral sands in Africa and an option to acquire 100% of TKL. Pursuant to the HoA, Vaaldiam Mining would receive US\$3 million in cash at closing and if the project reaches commercial production, a cash royalty of 1.5% of all product value. Pangea Goldfields, a 100% owned subsidiary of Barrick Gold Corporation, would receive a 0.5% cash royalty on the same terms and conditions as Vaaldiam Mining in exchange for waiving certain rights that it acquired in prior transactions with Vaaldiam Mining. BIL paid Vaaldiam Mining a US\$60,000 deposit that is deductible from the US\$3 million cash closing payment and is paying a non-refundable US\$60,000 per month to sustain TKL until the proposed transaction closes or is terminated. On July 30, 2010, the transaction was completed and upon closing Vaaldiam received in cash US\$3.0 million less the US\$60,000 deposit already received.

Pukaqaqa, Peru

The Pukaqaqa copper-gold deposit is located on a 31.5 square kilometre land package situated about 10 kilometres northwest of Huancavelica and 230 kilometres southeast of Lima, Peru. On October 2, 2004, the Company had entered into a heads of agreement (the “Milpo HOA”) with Campaña Minera Milpo S.A.A. (“Milpo”), and pursuant to the agreement, the Company earned a 49% interest in the property.

On February 19, 2010, the Company entered into an agreement to sell its 49% interest in the Pukaqaqa project to Milpo at a price of US\$7,000,000. Under the terms of the agreement, the Company received a cash consideration of US\$5,571,228 on closing and received a further US\$1,428,772 upon providing Milpo with a standard tax certificate from the Canada Revenue Agency.

If the project reaches commercial production, the Company will receive a further US\$4 million in the first year of production and an additional US\$4 million in the following year. The Company will also receive a Net Smelter Return royalty (“NSR”) on all mineral production from the current property package and any properties subsequently acquired by Milpo within 15 kilometres of the boundaries of the existing property package on a sliding scale. The NSR will be 1% if the quarterly London Metals Exchange copper price averages US\$3/lb or less and 2% otherwise.

As a result of this, the total amounts expended on the project amounting to \$6,679,000 were reclassified to assets held for sale as at December 31, 2009. During the first quarter of 2010, a gain of \$572,000 was recorded on the sale of the project.

8. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

(\$000's)	June 30, 2010		December 31, 2009	
Cash on hand and at bank	\$	10,478	\$	1,262
Short-term deposits		-		10,057
	\$	10,478	\$	11,319

Short-term deposits represent investments in cashable GICs that are redeemable at any time without penalty.

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9. INVENTORIES

(\$000's)	June 30, 2010		December 31, 2009	
Rough diamonds	\$	6	\$	-
Gold		12		-
Supplies		81		-
	\$	99	\$	-

Inventories are valued at the lower of cost and net realizable value.

10. 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 goods 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 June 30, 2010, a provision of \$2,196,000 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. The provision will be reviewed as the Company's Duas Barras Mine is expected to start production in the third quarter of 2010 and, if necessary, will be reduced accordingly.

11. FREEGOLD LONG-TERM LOAN

On August 22, 2008, the Company announced that it would provide a bridge loan of US\$2 million to Freegold, a company in which the President and CEO of the Company was a director. The President and CEO resigned as a director of Freegold in January 2009. The US\$2 million loan was part of a US\$4 million bridge loan facility obtained by Freegold.

The bridge loan facility was to mature on January 15, 2009. Terms for this facility included an annual interest rate of 12.5%, a cash closing fee, and 350,000 purchase warrants exercisable at \$0.55 each to purchase common shares of Freegold valid for a two-year period. An amount of \$105,000 in interest was received and recorded at December 31, 2008.

On January 15, 2009, the Company agreed to extend the bridge loan facility until February 10, 2009. In consideration, it received an additional 250,000 common shares in Freegold and its 350,000 purchase warrants were repriced.

On February 24, 2009, the Company and the other bridge lender reached an agreement with Freegold to further extend the maturity date of the combined US\$4.1 million in bridge loans, including accrued interest and commission, to July 15, 2009. A further extension was granted until August 15, 2009. As consideration for these extensions, the interest rate on the loans was increased from 12.5% to 15.0% and the Company and the other lender each received extension fees consisting of 360,000 common shares of Freegold, 500,000 purchase warrants to purchase common shares of Freegold for a two-year period, and US\$62,000, payable upon the earlier of the receipt of new financing or March 31, 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. FREEGOLD LONG-TERM LOAN (CONTINUED)

On April 1, 2009, Freegold announced that it was not able to pay the US\$62,000 loan extension fee due on March 31, 2009. Freegold then reached an agreement with its senior bridge loan lender and the Company for a further restructuring that provided an additional US\$200,000 of funding to Freegold, which was provided by the senior lender. Under the revised documents, all interest and extension fee payments due under the previous agreements were capitalized and added to the principal amounts due on the new maturity date of July 15, 2009.

Freegold required a further extension to the July 15, 2009 maturity date and on September 8, 2009, the Company announced that it had reached an agreement with Freegold to increase its equity interest in Freegold to 19.99%, by converting approximately \$1,378,000 of the US\$2,329,000 bridge loan owed by Freegold to the Company at August 31, 2009, including accrued interest and commission fees, into 16,714,773 common shares of Freegold. The Company held a total of 17,324,773 common shares as a result of this transaction. During the second quarter of 2010, the Company sold 380,000 common shares and holds 16,944,773 common shares as at June 30, 2010.

In addition, Freegold also agreed to transfer to the Company 1,000,000 of the 5,000,000 common shares of Western Standard received by Freegold in exchange for Freegold's Almaden Gold Project in Idaho. Western Standard will also assume the approximate US\$3 million of debt owed by Freegold to the senior bridge lender, relieving Freegold of this debt obligation. The Company also agreed to cancel all the warrants held in order to get the maximum number of shares permitted.

This transaction was completed on October 1, 2009 and the Company recognized interest income and commission income totalling \$226,000 and \$112,000, respectively, on the accumulated interest and commission fees added to the original principal. Under the revised agreement, the remaining debt of approximately US\$783,000 or C\$855,000 owed by Freegold will be repayable over a two-year term and will bear an annual interest rate of 6% payable quarterly. The debt will be held in Canadian dollars and no longer in US dollars. The Company will continue to be secured under the existing security agreements and will have collateral, being a first priority pledge of the shares in Freegold's remaining wholly owned US subsidiaries and a general security agreement against the personal property of Freegold (including a second charge against the processing and private property assets currently collateralizing an equipment loan at Golden Summit).

In accordance with CICA Handbook Section 3855 and EIC-88, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, the transaction resulted in the extinguishment of the existing loan and the establishment of a new loan receivable on October 1, 2009. The fair value of the new loan receivable at June 30, 2010 was determined to be C\$783,000 based on an effective interest rate of 15%.

12. LINE OF CREDIT

As part of the acquisition of Vaaldiam Resources, the Company acquired 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. During the quarter ended June 30, 2010, the Company paid down the balance of \$718,000 (US\$700,000) that was outstanding at the time of the acquisition.

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13. LONG-TERM LIABILITIES

Long-term liabilities consist of the long-term portion of Brazilian taxes payable and mineral license fees for which the Company has negotiated long-term payment plans with the Brazilian government.

14. 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 undiscounted closure and reclamation costs are estimated at \$682,000 (R\$1,156,000) to be incurred between 2012 and 2014.

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

(\$000's)	2010	2009
Balance, January 1, 2010	\$ -	\$ -
Acquisition of Vaaldiam Resources	493	-
Accretion expense	11	-
Foreign exchange	16	-
Balance, June 30, 2010	\$ 520	\$ -

15. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares at no par value. On March 23, 2010, the shareholders approved a share consolidation (the "Consolidation") on the basis of one new Vaaldiam common share for ten existing common shares. All prior period information has been adjusted to reflect this consolidation.

(a) Common Shares

	Notes	Number of Shares	Amount (\$000's)
Balance, January 1, 2009		47,661,380	\$ 187,075
Share bonus scheme	(i)	565,000	135
Balance, December 31, 2009		48,226,380	187,210
Share bonus scheme	(ii)	2,000,000	700
Cashless stock option	(iii)	8,571	3
Shares issued on acquisition of Vaaldiam Resources	(iv)	21,153,226	6,346
Balance, June 30, 2010		71,388,177	\$ 194,259

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15. SHARE CAPITAL (CONTINUED)

- (i) On December 3, 2008, the Board of Directors of Vaaldiam Mining approved share bonuses as described in (e) below totalling 675,000 common shares at a deemed price of \$0.20 per share. These shares may be issued up to February 28, 2009. At December 31, 2008, 235,000 common shares had been issued and during January 2009 another 420,000 common shares were issued with the balance of 20,000 being forfeited. On September 11, 2009, the Board of Directors approved share bonuses totalling 145,000 common shares at a deemed price of \$0.35 per share.
- (ii) On February 3, 2010, the Board of Directors approved share bonuses totalling 2,000,000 common shares at a deemed price of \$0.35 per share.
- (iii) On March 9, 2010, 8,571 cashless stock options were exercised with a deemed value of \$3,000.
- (iv) On March 23, 2010, pursuant to a plan of arrangement, 21,153,226 common shares were issued to shareholders of Vaaldiam Resources as described in note 3.

(b) Shareholder Rights Plan

On December 10, 2008, the Board of Directors of the Company approved a shareholder rights plan (the "Rights Plan"). Under the Rights Plan, one right ("Right") will be issued in respect of each voting share held on December 10, 2008. No consideration is payable by a shareholder upon issuance of the Rights. The Rights Plan will terminate at the close of the annual meeting of shareholders in 2012, if not terminated earlier.

The Rights Plan is intended to ensure that, in the event of a bid for control of the Company, shareholders will receive full and fair value for their shares and will not be subject to abusive or coercive take-over strategies and that the Board of Directors will have sufficient time to evaluate the bid, negotiate with the bidder, seek alternative bidders and explore other ways of maximizing shareholder value.

Rights are not exercisable until certain events occur. If anyone (an "Acquiring Person") wishes to acquire 20% or more of the Company's voting shares, this Acquiring Person may (i) negotiate terms which the Board of Directors of the Company approves as being fair to all shareholders or, alternatively (ii) without the Board of Directors approval, make a "permitted bid" which must contain provisions specified in the Rights Plan and be accepted by independent shareholders holding more than 50% of the then outstanding shares. If the Acquiring Person acquires 20% or more of the Company's voting shares other than as described above (subject to certain exemptions), the Rights will become exercisable, automatically allowing holders (other than the Acquiring Person) to purchase that number of common shares which have an aggregate market price equal to twice the exercise price of the Rights for a price equal to the exercise price. Effectively, this means a shareholder of the Company (other than the Acquiring Person) can acquire additional common shares from treasury at half their market price.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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15. SHARE CAPITAL (CONTINUED)

(c) Common Share Purchase Warrants

The following is a summary of the unexercised outstanding warrants as at June 30, 2010:

Type	Number Outstanding	Exercise Price	Expiry Date
Jinchuan warrants	6,093,769	\$ 6.50	July 31, 2016
Nederlandse Financierings Maatschappijvoor Ontwikkelingslanden N.V.	3,750,000	3.60	December 31, 2010
	9,843,769	\$ 5.40	

On January 1, 2010, 445,129 Radiant B warrants and 40,460 Radiant compensation warrants expired unexercised.

On May 31, 2010, 83,200 LinQ Series 2 warrants and 8,320 LinQ Series 3 warrants expired unexercised. The LinQ warrants were issued on March 23, 2010 in replacement of Vaaldiam Resources warrants as part of the acquisition of Vaaldiam Resources.

(d) Stock-Based Compensation

Under the Company's Stock Option Plan (the "Plan") established in 1996 and approved by shareholders in 1996, 2000, 2004, 2006 and 2007, the Company may grant to directors, officers, employees and consultants options to purchase common shares of the Company.

The maximum number of common shares reserved for issuance is 10% of the number of issued and outstanding common shares of the Company at the time of any option grant being reserved. The total number of common shares which may be reserved for issuance to any one individual under the Plan shall not exceed 5% of the total number of issued and outstanding common shares (on a non-diluted basis) under the Plan. Options granted since 1995 have a five-year term and are priced at the closing price of the Company's common shares on the day immediately prior to the date of granting. Vesting provisions vary according to the terms of the individual granting.

The Company also has a Stock Incentive Plan, which includes a Share Bonus Plan and a Share Purchase Plan for the benefit of directors, officers, employees and consultants of the Company. The maximum number of common shares issuable under the Stock Incentive Plan was 3,600,000 common shares, with no more than 2,800,000 common shares being issued under the Share Bonus Plan and the number of common shares issuable to any one person shall not exceed 20% of the aggregate number reserved. At the Annual Meeting of Shareholders held on June 16, 2010, the shareholders approved increasing the Stock Incentive Plan common shares from 3,600,000 to 7,138,817, with 5,496,889 being the maximum number of shares issued under the Share Bonus Plan. The Share Purchase Plan would allow participants to contribute up to 10% of their base annual salary and the Company would match each participant's contribution and the aggregate funds would be used to purchase common shares of the Company.

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15. SHARE CAPITAL (CONTINUED)

At the Annual and Special Meeting of Shareholders held on June 11, 2007, the shareholders approved the cashless settlement alternative in connection with the exercise of options under the Plan and the addition of a provision whereby, if the expiry date of an option granted under the Plan would otherwise occur during or within 10 days following a Black-Out Period, the expiry date of such option shall be extended to the first business day which is at least 10 days after the end of the Black-Out Period. Under the cashless settlement option as described above, the Company has the option to issue to the option holder substituted rights which are immediately converted into an equal number of common shares.

	Number of Options	Weighted Average Exercise Price
Options outstanding as at January 1, 2010	4,245,138	\$ 0.68
Granted	713,724	0.48
Exercised	(8,571)	0.25
Expired and forfeited	(343,752)	0.81
Options outstanding and exercisable as at June 30, 2010	4,606,539	\$ 0.64

Stock options outstanding and exercisable as at June 30, 2010 are as follows:

Range of Exercise Prices	Number of Options	Weighted Average Life (Years)	Weighted Average Exercise Price
\$ 0.00 - \$ 0.25	524,500	3.69	\$0.25
\$ 0.26 - \$ 0.35	819,334	4.45	\$0.35
\$ 0.36 - \$ 0.39	93,724	4.98	\$0.39
\$ 0.40 - \$ 0.50	620,000	3.89	\$0.50
\$ 0.51 - \$ 0.65	633,250	3.16	\$0.65
\$ 0.66 - \$ 0.75	694,333	2.75	\$0.75
\$ 0.76 - \$ 0.90	900,000	1.90	\$0.90
\$ 0.91 - \$ 1.25	301,398	2.15	\$1.25
\$ 1.26 - \$ 4.05	20,000	0.73	\$4.05
	4,606,539	2.96	\$0.64

During the six months ended June 30, 2010, the Company issued 713,724 options in replacement of Vaaldiam Resources options. For the six months ended June 30, 2010, the Company recorded \$719,000 of stock-based compensation expense, which included \$700,000 under the share bonus scheme, \$3,000 on the exercise of cashless stock options and \$16,000 on the change in the intrinsic value of the outstanding cashless stock options.

As at June 30, 2010, the remaining number of common shares available for issuance under the Stock Option Plan was 2,532,279.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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15. SHARE CAPITAL (CONTINUED)

(e) Contributed Surplus

(\$000's)

Balance, January 1, 2010	\$	3,702
Market price adjustment		16
Balance, June 30, 2010	\$	3,718

For options granted after June 11, 2007, compensation expense is calculated as the amount by which the quoted market price exceeds the exercise price with ongoing remeasurement of the outstanding contributed surplus. At June 30, 2010, the quoted market price of \$0.28 exceeded the exercise price of 524,500 outstanding stock options, and resulted in an adjustment to contributed surplus of \$16,000 to bring the total balance related to the stock options to \$16,000. At the time of exercise, capital stock will be credited with the amount, if any, of the outstanding contributed surplus. Under the Share Bonus Plan ((e) above) \$84,000 in common shares were issued during the year ended December 31, 2009, which were declared but outstanding at December 31, 2008. Upon issuance, the amount was credited to capital stock and the balance removed from contributed surplus.

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

During the six months ended June 30, 2010, an amount of \$773,000 (net of tax of NIL) was charged to accumulated other comprehensive loss in relation to the investments in Western Standard and Freegold as described in note 4. In addition, an amount of \$19,000 (net of tax of NIL) was reversed from other comprehensive loss on the sale of 380,000 common shares of Freegold. The accumulated other comprehensive losses for Freegold and Western Standard are \$1,308,000 and \$225,000 respectively, for a total of \$1,533,000.

17. 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17. MANAGEMENT OF CAPITAL (CONTINUED)

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

As at June 30, 2010, the capital structure of the Company consists of shareholders' equity totalling \$24,523,000 (December 31, 2009 - \$22,148,000).

18. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities:

Financial instruments are classified into one of the following five categories under Canadian GAAP: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying value of the Company's financial instruments is classified into the following categories:

(\$000's)	June 30, 2010	December 31, 2009
Held-for-trading ⁽¹⁾	\$ 10,478	\$ 11,319
Available-for-sale ⁽²⁾	1,017	1,969
Loans and receivables ⁽³⁾	1,034	808
Other financial liabilities ⁽⁴⁾	3,736	571

⁽¹⁾ Includes cash and cash equivalents and short-term investments.

⁽²⁾ Includes the Company's investments in the common shares of Freegold and Western Standard. Included in the December 31, 2009 balance was the investment in Vaaldiam Resources.

⁽³⁾ Includes receivables (Freegold and other receivables), but excludes prepaid share issuance costs, other prepaid expenses and deferred interest.

⁽⁴⁾ Includes the accounts payable and accrued liabilities and long-term liabilities.

CICA Handbook Section 3862, *Financial Instruments - Disclosures*, requires expanded disclosures about fair value measurements. The three levels of the fair value hierarchy under the Handbook Section are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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18. FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets forth the Company's financial assets and liabilities measured at fair value within the fair value hierarchy.

(\$000's)	Total	Level 1	Level 2	Level 3
Financial Assets:				
Cash, cash equivalents and short-term investments	\$ 10,478	\$ 10,478	\$ -	\$ -
Receivables	251	251	-	-
Available-for-sale securities	1,017	1,017	-	-
Loans receivable	783	-	783	-
	\$ 12,529	\$ 11,746	\$ 783	\$ -
Financial Liabilities:				
Accounts payable and accrued liabilities	\$ 3,319	\$ 3,319	\$ -	\$ -
Long-term liabilities	417	-	417	-
	\$ 3,736	\$ 3,319	\$ 417	\$ -

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

Credit risk

On October 1, 2009, the Company agreed to convert approximately US\$1,378,000 of the US\$2,329,000 short-term loan into 16,714,773 Freegold common shares as described in note 11, leaving an amount of \$855,000 secured by a first priority pledge of the shares in Freegold's wholly owned US subsidiaries and a general security agreement against the personal property of the Company. Without taking into account the fair value of any collateral, the amount that represents the maximum credit risk exposure for this loan is \$855,000 at June 30, 2010. The credit quality of the loan is considered adequate by management considering the collateral held.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at June 30, 2010, the Company had cash and cash equivalents of \$10,478,000 (December 31, 2009 - \$1,262,000) and short-term investments of Nil (December 31, 2009 - \$10,057,000) to settle current liabilities of \$3,319,000 (December 31, 2009 - \$571,000). Most of the Company's accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and diamond, gold and base metal prices.

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18. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk

The Company is exposed to interest rate risk as bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company has cash balances as discussed above and no interest-bearing long-term debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The income earned on these bank accounts is subject to the movements in interest rates. Assuming the \$10,478,000 held in cash and cash equivalents and short-term investments at June 30, 2010 had a +/- 1% change in interest rates, this would have an effect on loss before income taxes of approximately +/- \$105,000. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at June 30, 2010, the Company had investments in investment-grade short-term deposit certificates.

(b) Foreign currency risk

As at June 30, 2010, the Company holds its cash and cash equivalents in Canadian dollars, US dollars, Brazilian real and Kenyan shillings as discussed above, to settle the current liabilities. The Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are held in the various currencies are then translated into Canadian dollars. Foreign exchange fluctuations occur against the various currencies.

When the mines are operating, 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 June 30, 2010, a 10% 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 \$0.2 million in net income. Similarly, a 10% 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 \$0.2 million in net income.

(c) Price risk

The Company is exposed to price risk with respect to diamond, gold and base metal prices as well as input prices for fuel and electricity. Diamond, gold and base metal price risk is defined as the potential adverse impact on earnings and economic value due to gold and base metal price movements and volatilities. The Company closely monitors prices of diamond, gold and other base metals to determine the appropriate course of action to be taken by the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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18. FINANCIAL INSTRUMENTS (CONTINUED)**Fair Value:**

CGAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the consolidated balance sheet dates, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Sales taxes receivable and advances are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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.

When operating, 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.

19. RELATED PARTY TRANSACTIONS

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

- a) As discussed, the Company holds a 27.75% ownership interest in Flemish. Certain directors, officers and employees of the Company currently hold 14,117,500 (30.02%) common shares of Flemish. The main holders of the common shares are Jean-Charles Potvin, the Executive Chairman of Vaaldiam, and his family, who hold 11,000,000 common shares, and Robert Jackson, the President and CEO of Vaaldiam, who holds 1,300,000 common shares. The Chairman, effective February 1, 2010, will receive an annual salary of \$125,000. The CEO is also a director of Flemish and receives no compensation from Flemish. The Chairman and the CEO hold 900,000 and 400,000 stock options, respectively, at an exercise price of \$0.50 per option.
- b) In the first quarter, the Company charged Flemish \$3,100 for office space and expenses. From April 2010, the Company charges Flemish \$2,200 per month for office space. During the second quarter, the Company charged Flemish \$7,200 for office space and expenses. No other services are provided and charged for by the Company. As at June 30, 2010, an amount of \$600 was outstanding from Flemish which was subsequently paid for in July 2010.
- c) The Company also rented office space at fair market value to Rukwa Uranium Inc. ("Rukwa"), a company in which certain directors and officers of the Company hold common shares. The Company charged Rukwa \$1,250 in the first quarter of the year. No services are provided and charged for by the Company. This rental arrangement ended as of April 1, 2010 and no amounts were outstanding from Rukwa as at June 30, 2010.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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20. LOSS PER SHARE

For the purpose of the determination of net loss per share, the basic and diluted weighted average number of common shares outstanding for the six months ended June 30, 2010 was 61,554,003 (2009: 48,064,364). 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.

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, Kenya and Canada:

Twelve months ending (C\$000's)		
June 30, 2011	\$	199
June 30, 2012		160
June 30, 2013		117
June 30, 2014		117
June 30, 2015		54
Total	\$	647

Contingencies for Lawsuit

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.

When the Company assesses loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought.

If a contingent loss is probable based on the assessment and the amount can be reasonably estimated, then a loss is recorded. If a contingent loss is not probable based on the assessment but is reasonably possible, or is probable but the amount of the loss cannot be reasonably estimated, then the details of the contingent loss are disclosed. If the contingent loss is considered remote, it is generally not disclosed unless it involves guarantees, in which case the nature of the guarantee is disclosed. Legal fees incurred in connection with pending legal proceedings are expensed as incurred.

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, a provision of \$228,000 (R\$387,000) 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

22. SUPPLEMENTAL CASH FLOW INFORMATION

(000s)	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Interest paid	5	1	5	3
Income taxes paid	-	-	-	-

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current year.