



**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 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	September 30, 2010 (unaudited)	December 31, 2009 (audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	\$ 11,174	\$ 1,262
Short-term investments	8	–	10,057
Sundry receivables and prepayments		457	238
Inventories	9	202	–
Brazilian taxes and contributions recoverable	10	91	–
Due from associated company	5	230	–
Current portion of long-term loan	11	799	71
Assets held for sale	7	–	6,679
		12,953	18,307
Long-term loan	11	–	681
Brazilian taxes and contributions recoverable	10	165	–
Property, plant and equipment	6	6,741	89
Mineral properties	7	6,796	–
Other assets		136	–
Investments	4	1,242	1,969
Investments in associated companies	5	3,819	1,673
		\$ 31,852	\$ 22,719

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,166	\$ 571
		3,166	571
Long-term liabilities	13	443	–
Asset retirement obligations	14	546	–
<b>Shareholders' Equity</b>			
Common shares	15(a)	194,312	187,210
Contributed surplus	15(d)	3,740	3,702
Deficit		(169,046)	(167,985)
Accumulated other comprehensive loss	16	(1,309)	(779)
		27,697	22,148
		\$ 31,852	\$ 22,719

Commitments and contingencies (Note 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"signed"  
 Jean-Charles Potvin  
 Chairman

"signed"  
 Stephen Woodhead  
 Director

## VAALDIAM MINING INC.

### CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND DEFICIT

(Expressed in thousands of Canadian dollars)	Notes	For the nine months ended September 30, 2010 (unaudited)	For the year ended December 31, 2009 (audited)
<b>Common shares</b>			
Balance at beginning of period		\$ 187,210	\$ 187,075
Issued on acquisition of Vaaldiam Resources Ltd.	3	6,346	–
Private placement		53	–
Issued through share bonus scheme		700	135
Cashless stock options		3	–
Balance at end of period	15(a)	194,312	187,210
<b>Contributed surplus</b>			
Balance at beginning of period		3,702	3,811
Issued through share bonus scheme		–	(84)
Stock option market price adjustment		38	(25)
Balance at end of period	15(d)	3,740	3,702
<b>Deficit</b>			
Balance at beginning of period		(167,985)	(132,616)
Net loss for the period		(1,061)	(35,369)
Balance at end of period		(169,046)	(167,985)
<b>Accumulated other comprehensive loss</b>			
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	(549)	(779)
Balance at end of period		(1,309)	(779)
<b>Total shareholders' equity at end of period</b>		<b>\$ 27,697</b>	<b>\$ 22,148</b>

*See accompanying notes to consolidated financial statements.*

## VAALDIAM MINING INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30 (Unaudited)

(Expressed in thousands of Canadian dollars)	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Mine administration		\$ 362	\$ –	\$ 625	\$ –
Corporate and general		1,030	1,211	3,021	3,855
Stock-based compensation	15(c)	22	182	741	157
General exploration		26	–	26	101
		1,440	1,393	4,413	4,113
Foreign exchange loss		179	150	264	274
Interest and other income		(675)	(442)	(805)	(513)
Interest expense		–	–	5	3
Amortization		61	47	145	143
Other income and expenses	19	(3,880)	30,199	(2,961)	31,319
Net (income) loss for the period		(2,875)	31,347	1,061	35,339
Deficit, beginning of period		171,921	136,608	167,985	132,616
Deficit, end of period		\$ 169,046	\$ 167,955	\$ 169,046	\$ 167,955
Basic and diluted (income) loss per common share	21	\$ (0.04)	\$ 0.65	\$ 0.02	\$ 0.73
Weighted average number of common shares outstanding	21	71,603,532	48,077,104	64,853,172	48,117,038
Net (income) loss for the period		\$ (2,875)	\$ 31,347	\$ 1,061	\$ 35,339
Loss on disposal of available-for-sale securities (net of tax of \$Nil)		–	–	(19)	–
Unrealized loss on available-for-sale securities (net of tax of \$Nil)		(224)	2	549	152
Comprehensive (income) loss for the period		\$ (3,099)	\$ 31,349	\$ 1,591	\$ 35,491

*See accompanying notes to consolidated financial statements.*

## VAALDIAM MINING INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30 (Unaudited)

(Expressed in thousands of Canadian dollars)	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Operating Activities</b>					
Net income (loss) for the period		\$ 2,875	\$ (31,347)	\$ (1,061)	\$ (35,339)
Amortization		61	47	145	143
Stock-based compensation	15(c)	22	182	741	157
Unrealized foreign exchange loss		127	(127)	251	(235)
Other non-cash items	23	(3,849)	29,685	(4,446)	30,073
		(764)	(1,560)	(4,370)	(5,201)
Change in non-cash components of working capital	24	(230)	91	(2,666)	(280)
Cash used in operating activities		(994)	(1,469)	(7,036)	(5,481)
<b>Investing Activities</b>					
Purchase of property, plant and equipment		(284)	–	(696)	(2)
Proceeds on disposal of mineral properties		3,053	–	10,303	–
Proceeds on disposal of property, plant and equipment		–	–	1	–
Proceeds on disposal of investments		–	–	29	–
Investment in Flemish Gold Corp.	5	–	–	–	(1,424)
Investment in associates	5	(120)	–	(120)	–
Pre-production costs	7	(847)	–	(847)	–
Acquisition of Vaaldiam Resources Ltd.	3	–	–	(711)	–
Decrease (increase) in other assets		2	–	(136)	–
Short term investments		–	(12,000)	10,057	(12,000)
Cash provided by (used in) investing activities		1,804	(12,000)	17,880	(13,426)
<b>Financing Activities</b>					
Payment on line of credit	12	–	–	(718)	–
Payment on capital lease obligations		–	(10)	–	(26)
Cash used in financing activities		–	(10)	(718)	(26)
Effect of foreign exchange on cash		(114)	12	(214)	–
Net increase (decrease) in cash and cash equivalents during the period		696	(13,467)	9,912	(18,933)
Cash and cash equivalents, beginning of period		10,478	13,834	1,262	19,300
Cash and cash equivalents, end of period		\$ 11,174	\$ 367	\$ 11,174	\$ 367

Supplemental cash flow information (Note 25)

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 until March 23, 2010, when it acquired Vaaldiam Resources Ltd. (“Vaaldiam Resources” or “VRL”), 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 is currently in the pre-production phase at the Duas Barras mine 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 September 30, 2010, the Company had working capital of \$9,787,000 and had incurred losses since inception resulting in an accumulated deficit of \$169,046,000. As at September 30, 2010, the Company had no consistent sources of operating cash flows and may require additional financing to fund the development of its properties and to continue 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 year ended December 31, 2009.

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;
- 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 NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**

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

All intercompany balances and transactions have been eliminated on consolidation.

The unaudited interim consolidated financial statements for the three and nine months ended September 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:

**Significant accounting policies**

**(a) Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method. The cost includes direct labour, other direct costs, related amortization and depreciation, and production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

**(b) Revenue Recognition**

Revenue from the sale of rough diamonds is recognized when title transfers and the rights and obligations of ownership pass to the purchaser, which generally occurs when the goods are received by the customer. It is at this point that the purchase price is agreed, delivery has occurred, and all significant acts have been completed. Revenue from the sale of gold produced is recognized as a separate revenue stream at the time the goods are received by the customer.

**(c) Pre-Stripping Costs**

The costs incurred to provide access to mineral resources are capitalized as incurred and amortized to the cost of production on a unit-of-production basis as the associated mineral resources are extracted.

**(d) Asset Retirement Obligations**

The Company accrues the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded to the extent that actual cost is more or less than the initial estimate.

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

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

**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.

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.

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

**3. ACQUISITIONS (CONTINUED)**

Vaaldiam Resources owned two properties 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:

<b>(\$000's)</b>	
Common shares issued (211,532,258 pre-Consolidation 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
<b>Purchase price</b>	<b>\$ 7,207</b>

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

<b>(\$000's)</b>	<b>Pre-acquisition carrying amounts</b>	<b>Fair value adjustments</b>	<b>Fair value at acquisition date</b>
Non-cash working capital deficiency	\$ (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)
<b>Net identifiable assets</b>	<b>\$ 6,187</b>	<b>\$ 1,020</b>	<b>\$ 7,207</b>

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 nine months ended September 30, 2010, the Company expensed \$721,000 of transaction costs related to the acquisition of Vaaldiam Resources.

From the date of acquisition to September 30, 2010, VRL has recorded a net loss of \$1,574,000 that is included in the consolidated statement of operations and comprehensive loss and deficit for the nine months ended September 30, 2010. Had the acquisition of VRL occurred at January 1, 2010, the pro forma net loss for the nine months ended September 30, 2010 would have been \$2,308,000.

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

**4. INVESTMENTS**

(\$000's)	Carrying Value		Unrealized Loss in Other Comprehensive Loss	
	Cost	Cost	Cost	Cost
Freegold Ventures Ltd.	\$ 1,017	\$ 2,156	\$ 1,139	
Western Standard Metals Ltd.	225	395		170
	\$ 1,242	\$ 2,551	\$ 1,309	

**Freegold Ventures Ltd.**

On January 15, 2009, the Company received 250,000 common shares in Freegold Ventures Ltd. ("Freegold") (TSX: FVL, Frankfurt: FR4N) 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 common 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. On August 27, 2010, Freegold common shares were consolidated on a 6:1 basis. As at September 30, 2010, the Company held 2,824,128 common shares, which are considered an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$1,139,000 being recorded in Other Comprehensive Loss due to the change in the market value (note 16).

**Western Standards Metals Ltd.**

On October 1, 2009, the Company received 1,000,000 common shares of Western Standard Metals Ltd. ("Western Standard") (TSX-V: WSM, Frankfurt: ND7A) as part of the Freegold transaction.

As at September 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 \$170,000 being recorded in Other Comprehensive Loss due to the change in market value (note 16).

On November 1, 2010, Terraco Gold Corp. ("Terraco") (TSX-V: TEN) and Western Standard announced that they have entered into a binding letter agreement providing for Terraco to acquire all of the outstanding securities of Western Standard in an all share transaction, by way of a plan of arrangement. Pursuant to the plan of arrangement, Western Standard's shareholders will receive 0.75 common shares of Terraco for each Western Standard common share held. A definitive agreement between the two will be negotiated on or before December 6, 2010.

**5. INVESTMENTS IN ASSOCIATED COMPANIES**

(\$000's)	September 30, 2010	December 31, 2009
Flemish Gold Corp.	\$ 2,521	\$ 1,673
Lipari Mineração Ltda.	1,298	-
	\$ 3,819	\$ 1,673

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.

The Company's ownership percentage in Flemish decreased to 30.81% in October 2009.

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.

During January 2010, Flemish issued 70,000 common shares at \$0.25 per share and during February 2010 issued 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 quarter ended September 30, 2010, Flemish raised additional equity through a private placement of 8,740,685 common shares at \$0.75 per share, in which the Company did not participate. Flemish also issued 60,000 common shares as compensation to a contractor. As a result, the Company's ownership has been diluted to 22.56% and a dilution gain of \$1,182,000 was recorded.

During the nine months ended September 30, 2010, the Company recorded an equity loss of \$763,000 on the investment in Flemish.

**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 nine months ended September 30, 2010, the Company recorded an equity loss of \$6,000 on the investment in LML and contributed an additional \$120,000 to the joint venture. At September 30, 2010, the Company had a receivable from LML of \$230,000, representing expenses incurred on behalf of LML for the bulk sampling program.

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

**6. PROPERTY, PLANT AND EQUIPMENT**

<b>As at September 30, 2010</b>		<b>Cost</b>		<b>Accumulated</b>		<b>Net Book Value</b>	
<b>(\$000's)</b>				<b>Depreciation</b>			
Plant and mining equipment	\$	5,492	\$	–	\$	5,492	
Leasehold improvements		176		6		170	
Exploration and other equipment		915		260		655	
Vehicles		417		170		247	
Furniture and fixtures		186		95		91	
Computers and software		359		273		86	
	\$	7,545	\$	804	\$	6,741	

  

<b>As at December 31, 2009</b>		<b>Cost</b>		<b>Accumulated</b>		<b>Net Book Value</b>	
<b>(\$000's)</b>				<b>Depreciation</b>			
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**

<b>(\$000's)</b>	<b>January 1, 2010</b>		<b>Additions</b>		<b>Acquisitions</b>		<b>September 30, 2010</b>	
<b>Production properties</b>								
Brazil								
Duas Barras	\$	–	\$	453	\$	3,051	\$	3,504
Pre-stripping costs		–		394		–		394
Chapada		–		–		–		–
		–		847		3,051		3,898
<b>Exploration properties</b>								
Brazil								
Chapada								
Exploration Area		–		–		2,889		2,889
Catalão		–		–		9		9
		–		–		2,898		2,898
<b>Total Mineral Properties</b>	\$	–	\$	847	\$	5,949	\$	6,796

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 NINE MONTHS ENDED SEPTEMBER 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. During the third quarter of 2010, the Company completed commissioning of the plant and restarted pre-production activities.

**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. 22 kimberlite occurrences 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 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\$25,000,000 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 period ended September 30, 2010, the Company did not record any amounts related to care and maintenance at the Kwale project (2009 - \$627,000).

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

**7. MINERAL PROPERTIES (CONTINUED)**

On February 24, 2010, Vaaldiam Mining and Base Resources Limited (“BRL”) (ASX: BSE, formerly Base Iron Limited,) signed a binding heads of agreement (“HoA”) for a transaction in which BRL would acquire the Kwale project, 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 received US\$3,000,000 in cash at closing on July 31, 2010 and if the project reaches commercial production, Vaaldiam Mining would receive 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.

**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 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\$4,000,000 in the first year of production and an additional US\$4,000,000 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.

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**8. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

(\$000's)	September 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 11,174	\$ 1,262
Short-term investments	-	10,057
	\$ 11,174	\$ 11,319

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

**9. INVENTORIES**

(\$000's)	September 30, 2010	December 31, 2009
Rough diamonds	\$ 65	\$ -
Gold	53	-
Supplies	84	-
	\$ 202	\$ -

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method. The cost includes direct labour, other direct costs, amortization and depreciation and related production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

As at September 30, 2010, diamond and gold inventories are carried at 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 September 30, 2010, a provision of \$1,376,000 had been made against these taxes and contributions, as it is not certain that the full value of these credits will be recovered.

**11. FREEGOLD LOAN**

As at September 30, 2010, the fair value of the loan receivable from Freegold was \$799,000 (December 31, 2009 - \$752,000). The loan bears interest at an annual rate of 6% payable quarterly with a maturity date of September 30, 2011. The Company has collateral of a first priority pledge of the shares in Freegold's wholly owned US subsidiaries and a general security agreement against the personal property of Freegold.

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**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.

**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 10.0%. The total undiscounted closure and reclamation costs are estimated at \$700,000 (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	23	-
Foreign exchange	30	-
Balance, September 30, 2010	\$ 546	\$ -

**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 the consolidation on the basis of one new Vaaldiam Mining 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 options	(iii)	8,571	3
Shares issued on acquisition of Vaaldiam Resources	(iv)	21,153,226	6,346
Private placement	(v)	238,636	53
Balance, September 30, 2010		71,626,813	\$ 194,312

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**15. SHARE CAPITAL (CONTINUED)**

- (i) On December 3, 2008, the Board of Directors of Vaaldiam Mining approved share bonuses 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.
- (v) On July 12, 2010, the Company issued 238,636 common shares in settlement of an outstanding payable acquired as part of the acquisition of Vaaldiam Resources.

**(b) Common Share Purchase Warrants**

The following is a summary of the unexercised outstanding warrants as at September 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	3.50	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.

**(c) Stock-Based Compensation**

	Number of Options	Weighted Average Exercise Price
Options outstanding as at January 1, 2010	4,245,138	\$ 0.68
Granted	913,724	0.44
Exercised	(8,571)	0.25
Expired and forfeited	(343,752)	0.81
Options outstanding and exercisable as at September 30, 2010	4,806,539	\$ 0.63

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

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

Range of Exercise Prices	Number of Options	Weighted Average Life (Years)	Weighted Average Exercise Price
< \$0.30	724,500	3.66	\$0.257
\$0.31 - \$0.40	913,058	4.00	\$0.354
\$0.41 - \$0.50	620,000	3.42	\$0.500
\$0.51 - \$0.70	633,250	2.66	\$0.650
\$0.71 - \$0.80	694,333	2.24	\$0.750
\$0.81 - \$1.00	900,000	1.40	\$0.900
\$1.01 - \$4.00	301,398	1.64	\$1.250
> \$4.01	20,000	0.48	\$4.050
	4,806,539	2.79	\$0.628

During the nine months ended September 30, 2010, the Company issued 713,724 options in replacement of Vaaldiam Resources options. The Company also issued 200,000 options to two new non-executive Directors of the Company. For the nine months ended September 30, 2010, the Company recorded \$741,000 of stock-based compensation expense, which included \$700,000 under the share bonus scheme, \$3,000 on the exercise of cashless stock options and \$38,000 on the change in the intrinsic value of the outstanding cashless stock options.

As at September 30, 2010, the remaining number of common shares available for issuance under the Stock Option Plan was 2,356,143.

**(d) Contributed Surplus**

**(\$000's)**

Balance, January 1, 2010	\$	3,702
Market price adjustment		38
Balance, September 30, 2010	\$	3,740

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 September 30, 2010, the quoted market price of \$0.31 exceeded the exercise price of 724,500 outstanding stock options, and resulted in an adjustment to contributed surplus of \$38,000 to bring the total balance related to the stock options to \$38,000. At the time of exercise, capital stock will be credited with the amount, if any, of the outstanding contributed surplus.

**16. ACCUMULATED OTHER COMPREHENSIVE LOSS**

During the nine months ended September 30, 2010, an amount of \$549,000 (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 \$1,139,000 and \$170,000, respectively, for a total of \$1,309,000.

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## 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.

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, 2010, the capital structure of the Company consists of shareholders' equity totalling \$27,697,000 (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)	September 30, 2010	December 31, 2009
Held-for-trading <sup>(1)</sup>	\$ 11,174	\$ 11,319
Available-for-sale <sup>(2)</sup>	1,242	1,969
Loans and receivables <sup>(3)</sup>	1,029	808
Other financial liabilities <sup>(4)</sup>	3,609	571

<sup>(1)</sup> Includes cash and cash equivalents and short-term investments.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Includes the accounts payable and accrued liabilities and long-term liabilities.

CICA Handbook Section 3862, *Financial Instruments - Disclosures* ("Section 3862"), requires expanded disclosures about fair value measurements. The three levels of the fair value hierarchy under Section 3862 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	
<b>Financial Assets</b>								
Receivables	\$	230	\$	230	\$	-	\$	-
Available-for-sale securities		1,242		1,242		-		-
Loans receivable		799		-		799		-
	\$	2,271	\$	1,472	\$	799	\$	-
<b>Financial Liabilities</b>								
Accounts payable and accrued liabilities	\$	3,166	\$	3,166	\$	-	\$	-
Long-term liabilities		443		-		443		-
	\$	3,609	\$	3,166	\$	443	\$	-

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

**(a) 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 4, 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 September 30, 2010. The credit quality of the loan is considered adequate by management considering the collateral held.

**(b) 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 September 30, 2010, the Company had cash and cash equivalents of \$11,174,000 (December 31, 2009 - \$1,262,000) and short-term investments of \$Nil (December 31, 2009 - \$10,057,000) to settle current liabilities of \$3,166,000 (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.

**(c) 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)**

(i) 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 \$11,174,000 held in cash and cash equivalents and short-term investments at September 30, 2010 had a +/- 1% change in interest rates, this would have an effect on loss before income taxes of approximately +/- \$112,000. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at September 30, 2010, the Company had investments in investment-grade short-term deposit certificates.

(ii) Foreign Currency Risk

As at September 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 diamond sales are denominated in US 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, 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 approximately \$600,000 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 approximately \$200,000 in net income.

(iii) 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.

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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 and 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. OTHER INCOME AND EXPENSES**

Other income and expenses consists of the following:

(\$000's)	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Recovery of Brazilian taxes and contributions recoverable		\$ 41	-	\$ 24	-
Kwale project	7	(50)	180	-	627
Gain on sale of mineral properties	7	(3,053)	-	(3,625)	-
Loss on sale of property, plant and equipment		-	-	1	35
Loss on sale of investments		-	-	19	-
Equity loss in associated company	5	364	98	769	395
Gain on dilution of associated company	5	(1,182)	-	(1,611)	-
Transaction costs	3	-	-	721	-
Severance costs		-	129	741	129
Impairment of loan receivable		-	(227)	-	-
Write-off of mineral properties		-	5,869	-	5,869
Write-off of deferred exploration		-	24,178	-	24,178
Write-off of long-term lease and land		-	797	-	797
Bad debt expense		-	394	-	394
Miscellaneous income		-	(849)	-	(849)
Forgiveness of long-term liabilities		-	(386)	-	(386)
Impairment of investment in associated company		-	16	-	130
		\$ (3,880)	\$ 30,199	\$ (2,961)	\$ 31,319

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**20. 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) The Company holds a 22.56% ownership interest in Flemish. Certain directors, officers and employees of the Company currently hold 14,155,000 (30.06%) common shares of Flemish. The main holders of the common shares are Jean-Charles Potvin, the non-executive Chairman of Vaaldiam Mining, and his family, who hold 11,000,000 common shares, Roland Bertin, a non-executive director, and a company controlled by him, who hold 1,750,000 common shares, and Robert Jackson, the President and CEO of Vaaldiam Mining, who holds 1,300,000 common shares. The Chairman, as Chairman and CEO of Flemish, received an annual salary of \$125,000 from Flemish, which was increased to \$250,000 effective October 1, 2010. During October 2010, the Chairman received a bonus of \$50,000 and a retrospective salary adjustment of \$100,000 for the years which no salary was paid. The CEO is also a director of Flemish and receives no compensation from Flemish. At September 30, 2010, the Chairman and the CEO held 900,000 and 400,000 stock options, respectively, at an exercise price of \$0.50 per option. During October 2010, the Chairman and CEO were issued an additional 80,000 and 80,000 stock options, respectively, at an exercise price of \$0.75 per option.
- (b) The Company charges Flemish for office space and related expenses. During the nine months ended September 30, 2010, the Company charged Flemish \$16,600 for office space and expenses. No other services are provided and charged for by the Company. As at September 30, 2010, there were no amounts outstanding from Flemish.
- (c) In October 2009, Vaaldiam Mining entered into an agreement with Flemish whereby Flemish would pay to Vaaldiam Mining a share of the settlement costs and legal expenses in relation to the settlement of a legal action brought forth by Jaguar Financial Corp. against Flemish, Freegold and Vaaldiam Mining. Under the terms of the agreement, the payment to Vaaldiam Mining would be conditional on the ability of Flemish to raise additional financing. In July 2010, Flemish completed a financing of approximately \$6,555,000 and paid \$506,000 to Vaaldiam Mining in accordance with the agreement.

**21. (INCOME) LOSS PER SHARE**

For the purpose of the determination of (income) loss per share, the basic and diluted weighted average number of common shares outstanding for the nine months ended September 30, 2010 was 64,853,172 (2009 - 48,117,038). The determination of the weighted average number of common shares outstanding for the calculation of diluted (income) loss per share does not include the effect of outstanding warrants and options since to do so would reduce the (income) loss per share and would, therefore, be anti-dilutive.

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## 22. 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:

<b>Twelve months ending (\$000's)</b>		
September 30, 2011	\$	198
September 30, 2012		147
September 30, 2013		117
September 30, 2014		117
September 30, 2015		29
Total	\$	608

### Contingencies for Lawsuits and Tax Assessments

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. In addition, certain subsidiaries of the Company have outstanding assessments from the Brazilian tax authorities with respect to prior period filings and outstanding balances. Some of these claims and assessments 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 or tax assessment that are pending against the Company or unasserted claims that may result in such proceedings or assessments, the Company and its legal counsel evaluate the perceived merits of any legal proceedings, assessments 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 \$405,000 (R\$668,000) 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, which will be lifted in 2011, when the last installment of a negotiated settlement is due to be paid.

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**23. OTHER NON-CASH ITEMS**

Other non-cash items consist of the following:

(\$000's)	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Accretion of asset retirement obligation	14	\$ 12	\$ -	\$ 23	\$ -
Provision of Brazilian taxes and contributions recoverable		24	-	24	-
Freegold share valuation adjustment		-	(34)	-	(101)
Accretion interest on Freegold loan		(14)	-	(46)	-
Gain on sale of mineral properties	7	(3,053)	-	(3,625)	-
Loss on disposal of property, plant and equipment		-	-	1	35
Loss on disposal of investments		-	-	19	-
Write-off of mineral properties		-	5,869	-	5,869
Write-off of deferred exploration		-	24,178	-	24,178
Write-off of long-term lease and land		-	797	-	797
Long-term loan receivable		-	(855)	-	(855)
Forgiveness of long-term liabilities		-	(386)	-	(386)
Leasehold expenses written off		-	2	-	11
Equity loss of associated company	5	364	98	769	395
Gain on dilution of investments in associated company	5	(1,182)	-	(1,611)	-
Impairment of investments in associated company		-	16	-	130
		\$ (3,849)	\$ 29,685	\$ (4,446)	\$ 30,073

**24. CHANGE IN NON-CASH COMPONENTS OF WORKING CAPITAL**

(\$000's)	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Increase in due from related party	\$ (35)	\$ -	\$ (73)	\$ -
Decrease in sundry receivables and prepayments	35	1,157	122	1,713
Increase in sales taxes recoverable	(50)	-	(108)	-
Increase in inventories	(103)	-	(105)	-
Decrease in accounts payable and accrued liabilities	(77)	(393)	(2,502)	(1,729)
Decrease in due to related party	-	(673)	-	(264)
	\$ (230)	\$ 91	\$ (2,666)	\$ (280)

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

**25. SUPPLEMENTAL CASH FLOW INFORMATION**

(\$000's)	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest paid	-	-	\$ 5	\$ 3

**26. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.