



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011 (UNAUDITED)

All amounts in Canadian dollars unless otherwise specified

VAALDIAM MINING INC.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

(In thousands of Canadian dollars)	Notes	March 31, 2011	December 31, 2010 (Note 23)	January 1, 2010 (Note 23)
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 5,636	\$ 8,347	\$ 1,262
Short-term investments	5	–	–	10,057
Sundry receivables and prepayments		403	327	238
Brazilian taxes and contributions recoverable	6	116	116	–
Due from associated company		–	126	–
Inventories	7	567	848	–
Current portion of loan receivable	8	820	802	71
Assets held for sale		–	–	6,679
		7,542	10,566	18,307
Non-current assets				
Loan receivable	8	–	–	681
Brazilian taxes and contributions recoverable	6	386	227	–
Plant and equipment	9	4,691	5,016	89
Mineral properties	10	15,395	4,828	–
Other assets		137	136	–
Investments	11	2,266	1,749	1,969
Investments in associated companies	4, 12	1,805	3,346	1,673
		\$ 32,222	\$ 25,868	\$ 22,719
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 2,409	\$ 2,947	\$ 571
Current portion of loan payable	15	1,458	–	–
		3,867	2,947	571
Non-current liabilities				
Long-term liabilities	13	719	472	–
Decommissioning liabilities	14	1,208	1,157	–
Loan payable	15	3,714	–	–
Total liabilities		9,508	4,576	571
Non-controlling interest	4	8,437	–	–
Shareholders' equity	16	14,277	21,292	22,148
		\$ 32,222	\$ 25,868	\$ 22,719

Commitments and contingencies (Note 20)

Subsequent events (Note 22)

See accompanying notes to condensed consolidated financial statements.

Approved on behalf of the Board:

“signed”

Jean-Charles Potvin
Chairman

“signed”

Stephen Woodhead
Director

VAALDIAM MINING INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (unaudited)

(In thousands of Canadian dollars, except per share amounts)	Notes	2011	2010 (Note 23)
Mine administration		\$ 337	\$ –
Corporate and general		912	644
Gain on disposal of plant and equipment	9	(34)	–
Gain on disposal of mineral properties		–	(572)
Equity loss on investments in associated companies	12	398	161
Gain on dilution of investment in associated company		–	(429)
Impairment of long-lived assets	9, 10	6,070	–
Other expenses	17	137	2,266
Operating income		7,820	2,070
Foreign exchange (gain) loss		(154)	121
Interest and other income		(36)	(45)
Interest expense		18	–
Net loss		\$ 7,648	\$ 2,146
Attributable to:			
Equity holders of Vaaldiam Mining Inc.		7,641	2,146
Non-controlling interest in loss of subsidiaries		7	–
		\$ 7,648	\$ 2,146
Basic and diluted loss per common share attributable to equity holders of Vaaldiam Mining Inc.	18	\$ 0.11	\$ 0.04
Weighted average number of common shares outstanding	18	71,628,517	51,353,206
Net loss		\$ 7,648	\$ 2,146
Unrealized (gain) loss on available-for-sale securities, net of tax	11	(517)	10
Unrealized foreign exchange loss on intercompany loans, net of tax		148	–
Currency translation adjustment, net of tax		(257)	–
Comprehensive loss		\$ 7,022	\$ 2,156
Attributable to:			
Equity holders of Vaaldiam Mining Inc.		7,015	2,156
Non-controlling interest in loss of subsidiaries		7	–
		\$ 7,022	\$ 2,156

See accompanying notes to condensed consolidated financial statements.

VAALDIAM MINING INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

(In thousands of Canadian dollars)	Notes	Three Months Ended March 31, 2011	Three months ended March 31, 2010 (Note 23)	Year Ended December 31, 2010 (Note 23)
Common shares				
Balance at beginning of period		\$ 194,312	\$ 187,210	\$ 187,210
Issued on acquisition of Vaaldiam Resources Ltd.	4	–	6,346	6,346
Private placement		–	–	53
Issued through share bonus scheme		–	700	700
Exercise of cashless stock options		–	3	3
Balance at end of period	16(a)	194,312	194,259	194,312
Contributed surplus				
Balance at beginning of period		3,782	3,702	3,702
Stock options and warrants issued		–	56	80
Balance at end of period	16(d)	3,782	3,758	3,782
Deficit				
Balance at beginning of period		(174,958)	(167,985)	(167,985)
Net loss attributable to equity holders of Vaaldiam Mining Inc. for the period		(7,641)	(2,146)	(6,973)
Balance at end of period		(182,599)	(170,131)	(174,958)
Accumulated other comprehensive loss				
Balance at beginning of period		(1,844)	(779)	(779)
Unrealized (gain) loss on available-for-sale securities (net of tax)	11	517	(10)	(42)
Loss on disposal of available-for-sale securities (net of tax)		–	–	19
Unrealized foreign exchange (gain) loss on intercompany loans (net of tax)		(148)	–	390
Currency translation adjustment		257	–	(1,432)
Balance at end of period	16(e)	(1,218)	(789)	(1,844)
Total shareholders' equity at end of period		\$ 14,277	\$ 27,097	\$ 21,292
Non-controlling interest				
Balance at beginning of period		–	–	–
Acquisition of additional interest in Lipari Mineração Ltda.	4	8,444	–	–
Non-controlling interest in losses of subsidiaries		(7)	–	–
Balance at end of period		8,437	–	–
Total equity at end of period		\$ 22,714	\$ 27,097	\$ 21,292

See accompanying notes to condensed consolidated financial statements.

VAALDIAM MINING INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (unaudited)

(Expressed in thousands of Canadian dollars)	Notes	2011	2010
Operating Activities			
Net loss for the period		\$ (7,648)	\$ (2,146)
Depreciation	9	71	17
Gain on disposal of plant and equipment	9	(34)	–
Gain on disposal of mineral properties		–	(572)
Equity loss on investments in associates	12	398	161
Gain on dilution of investments in associates		–	(429)
Impairment of mineral properties	9, 10	6,070	–
Unrealized foreign exchange loss		(153)	106
Other non-cash items	21	49	687
		(1,247)	(2,176)
Change in non-cash components of working capital	21	(249)	(316)
Cash used in operating activities		(1,496)	(2,492)
Investing Activities			
Expenditures on plant and equipment	9	(21)	–
Proceeds on disposal of mineral properties		–	7,250
Proceeds on disposal of plant and equipment	9	61	–
Expenditures on mine development	10	(306)	–
Acquisition of Lipari Mineracao Ltda.	4	11	–
Acquisition of Vaaldiam Resources Ltd.	4	–	(699)
Expenditures on other assets		(1)	(210)
Proceeds on maturity of short-term investments		–	10,057
Cash provided by (used in) investing activities		(256)	16,398
Financing Activities			
Payment of loan	15	(891)	–
Cash used in financing activities		(891)	–
Effect of foreign exchange on cash		(68)	(106)
Net increase (decrease) in cash and cash equivalents during the period		(2,711)	13,800
Cash and cash equivalents, beginning of period		8,347	1,262
Cash and cash equivalents, end of period		\$ 5,636	\$ 15,062

See accompanying notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(in Canadian dollars unless otherwise specified)

1. REPORTING ENTITY

Vaaldiam Mining Inc. (the "Company" or "Vaaldiam Mining") (TSX: VAA), formerly 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 is engaged in the investigation, acquisition, exploration and development of mineral properties. The Company's Braúna diamond project in Brazil is currently in advanced exploration stage. Substantially all of the efforts of the Company are devoted to these business activities.

The head office, principal address and registered office of the Company are located at 55 University Avenue, Suite 1105, Toronto, Ontario, M5J 2H7.

The audited consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") are available on SEDAR at www.sedar.com.

These condensed 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. At March 31, 2011, the Company had working capital of \$3,675,000 but had incurred losses since inception resulting in an accumulated deficit of \$182,599,000. As at March 31, 2011, the Company had no consistent sources of cash and may require additional financing to fund the development of its properties and to continue its operations in the future. There can be no assurances that the Company will be successful in this regard and, therefore, there is 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 condensed 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 condensed 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 Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In these condensed interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS financial statements and have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 23. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRSs.

(b) Basis of consolidation

The condensed interim consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries as at and for the three months ended March 31, 2011. The financial statements of subsidiaries are included in the consolidated financial statements from the date of acquisition of control until the date that control ceases.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(in Canadian dollars unless otherwise specified)

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company transactions are eliminated in full.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition.

(c) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, rounded to the nearest thousand.

The Company's presentation currency is the Canadian dollar. The functional currency of the Company's Brazilian subsidiaries is the Brazilian real, while the functional currency of all other subsidiaries is the Canadian dollar. On consolidation, the assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates in effect at the reporting date and the income and expenses of foreign operations are translated to the Canadian dollar at rates that approximate the exchange rates at the dates of the transactions. Subsequent to the adoption of IFRS, all exchange differences resulting from the translation of foreign currency financial statements are reported in Other Comprehensive Income.

(d) Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, particularly mineral properties, and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the period. Significant areas that require the use of estimates include the assessment of valuation and impairment of non-financial assets, estimation of the decommissioning liabilities, valuation of inventories, valuation of share-based compensation and the determination of the existence and measurement of tax assets and related valuation allowances. Actual results could differ from those estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of the business combination is measured by the aggregate of the fair value at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair value at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

(b) Investments in associates

Associates are entities in which the Company has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method and are recognized initially at cost (including transaction costs) and the Company's share of the profit or loss of equity-accounted investees from the date that significant influence commences until the date that significant influence ceases.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(c) Financial assets

Financial assets are classified into one of the four categories at initial recognition:

(i) Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as FVTPL when it has been acquired principally for the purpose of selling in the near future, it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instruction.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit and loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Attributable transaction costs are recognized in profit or loss as incurred.

The Company classifies cash and cash equivalents as FVTPL.

(ii) Held-to-maturity financial assets

A financial asset is classified as held-to-maturity when the Company has the intent and ability to hold debt securities to maturity. Held-to-maturity assets are recognized initially at fair value plus any directly attributable transaction costs.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses.

(iv) Available for sale ("AFS") financial assets

A financial asset is classified as AFS when it is designated as available for sale or are not classified in any of the previous categories. AFS assets are stated at fair value with any resultant gain or loss recognized in other comprehensive income.

The Company classifies investments in marketable securities as AFS assets.

(d) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss (FVTPL) or other-financial-liabilities.

The Company classifies trade and other payables, accrued liabilities, deposits received and amounts due under line of credit facilities as other-financial-liabilities.

(e) Cash and cash equivalents

Cash and cash equivalents include all cash on hand, bank balances and all highly liquid short-term investments. The Company considers all highly liquid short-term investments with a maturity of three months or less at the date of purchase to be cash equivalents.

(f) 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. Consumables are valued at the lower of cost and net realizable value, with replacement cost used as an estimate of the net realizable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (ie. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

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(g) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of each plant and equipment item consists of the acquisition price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of the plant and equipment, less their estimated residual value, over the estimated useful lives of the assets as follows:

Plant and mining equipment	Units of production basis over indicated mineral resources
Exploration and other equipment	3 years, straight-line
Vehicles	3 years, straight-line
Computers and software	3 years, straight-line
Furniture and fixtures	5 years, straight-line
Leasehold improvements	5 years, straight-line

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

The depreciation method, useful life and residual values are assessed annually.

Assets under construction include plant and equipment in the course of construction for production or for its own use purposes. These are recorded at cost and are not depreciated until construction is completed and the assets are ready for its intended use.

(h) Stripping costs

Stripping costs incurred during the development and pre-production phase of a mine are capitalized. Stripping costs incurred during the production phase are capitalized where they are incurred to provide access to the ore and increase future output of the mine giving rise to future benefits from the mineral property. Capitalized stripping costs are amortized on a unit-of-production basis.

(i) Exploration and evaluation expenditures

The Company considers its costs incurred during exploration for and evaluation of mineral resources to have the characteristics of property, plant and equipment. As such, the Company recognizes as assets all such costs including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge would be made. Expenses incurred during the pre-production period are also deferred and any revenues realized during the period are recorded as a reduction in deferred expenditures.

The recoverability of the carrying value of exploration properties is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain financing or other means to complete development of the properties, and the future profitable production or proceeds from the disposition of the properties.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

(j) Impairment of non-financial assets

The Company reviews its tangible and intangible assets for indications of impairment at each reporting date. If indication of impairment exists, the asset's recoverable amount is estimated. Where it is not possible to estimate the

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recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the assets belong.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased by the revised estimate of its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of such impairment loss is recognized into profit or loss.

(k) Decommissioning liabilities

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 its mining properties. The fair value of a liability for an asset retirement obligation is recorded based on the estimated future cash flows discounted at a risk free rate specific to the liability. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related asset. This provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk free discount rate. 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.

(l) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, based on tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured at the tax rates that are expected to be applied when they reverse, based on tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized.

(m) Revenue recognition

Revenue from the sale of rough diamonds is recognized when the significant risks and rewards 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.

(n) Share-based compensation

The Company has a share-based compensation plan, which is described in Note 16. The cost of any share-based award is measured by the fair value determined on the grant date using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, expected forfeiture and the risk-free interest rate. The cost is recognized as expense over the graded vesting period where the fair value of each tranche is recognized over its respective vesting period.

(o) Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to

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include the number of additional common shares that would have been outstanding assuming that options and warrants, with average market prices for the period greater than their exercise prices, were exercised and the proceeds used to repurchase common shares. As the Company has a loss for the period presented, all stock options and warrants are considered to be anti-dilutive.

(p) Significant management judgment in applying accounting policies

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

(i) Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carryforwards or other tax credits. If a positive forecast of taxable income indicates the probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

(ii) Estimation uncertainty

When preparing the interim condensed consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

(iii) Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

(iv) Business combinations

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statements of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates, however, the actual results may vary. Any measurement changes from initial recognition would affect the measurement of goodwill.

(v) Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is subject to changes in foreign policies and internationally accepted commodity prices which may cause selling prices to change rapidly.

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(vi) Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

4. ACQUISITIONS

Lipari Mineração Ltda.

On March 4, 2011, an agreement was signed whereby Vaaldiam Mining increased its investment in Lipari Mineração Ltda. ("LML") from 20% to 51% for consideration of approximately \$7,742,000. A payment of US\$917,000 was made on signing with US\$1,500,000 to be paid on August 4, 2011 and the balance of US\$402,238 and R\$9,043,964 to be paid on June 4, 2012. Pursuant to the agreement, the Company will act as operator for the project and will be responsible for the financing of a feasibility study and, if proven to be economically feasible, will finance the building and development of a mine. Various milestones have been agreed to between the Company and the existing partners, and when the mine is built, the Company's project development cost will be repaid in full from the project's profits before distribution of the profits to the joint venture partners. Should the Company not meet the payment schedule or certain milestones by pre-determined deadlines, where the reason for such failure was within the reasonable control of the Company, the partners have a right to buy back the 31% interest for the amount of the transaction consideration paid up to the buy-back date, and under certain circumstances, the right to purchase the Company's remaining 20% interest at fair value as determined by an independent third party. Should this happen, the Company would cease to be operator and if the project is successfully developed other than by the Company, the Company's contribution to the project development cost will be repaid out of the project's profits. As at the transaction date, LML did not meet the definition of a business and, as a result, the acquisition was accounted for as a purchase of assets.

As part of the acquisition, the Company amended the original sale of 80% interest in LML to the joint venture partners that occurred in 2009, which resulted in a reduction in the carrying value of the initial 20% investment of \$959,000.

The acquisition cost was calculated as follows:

(C\$ 000's)	
Cash paid	\$ 891
Fair value of consideration payable	6,851
Carrying value of initial 20% investment	184
Total investment cost at March 4, 2011	\$ 7,926

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The acquisition cost was allocated to the fair value of the assets and liabilities acquired, on a preliminary basis, as follows:

(C\$ 000's)

Cash	\$	11
Plant and equipment		2,632
Mineral properties		13,182
Other assets		3,208
Non-current liabilities		(2,663)
Non-controlling interest		(8,444)
Net identifiable assets	\$	7,926

Vaaldiam Resources

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 subscribed for an additional 20,000,000 common shares of Vaaldiam Resources at a price of \$0.03 per share, and announced that it had 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 (the "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.

At the time of the acquisition, Vaaldiam Resources owned two properties that had been placed on care and maintenance due to the global economic conditions and the 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.

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

(C\$ 000's)

Common shares issued (211,532,258 pre-Consolidation common shares at a cost of \$0.03 per share)	\$	6,346
Fair value of 91,520 warrants and 713,724 options issued		56
Cash paid for 25,000,000 Vaaldiam Resources shares		750
Payments to dissenting shareholders and small lot holders		98
Purchase price	\$	7,250

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The purchase consideration was allocated to the fair value of the assets and liabilities acquired as follows:

(C\$ 000's)

Non-cash working capital deficiency	\$	(5,243)
Property, plant and equipment		4,116
Mineral properties		8,364
Other non-current assets		1,327
Other non-current liabilities		(1,314)
Net identifiable assets	\$	7,250

During the three months ended March 31, 2010, the Company expensed \$717,000 of transaction costs related to the acquisition of Vaaldiam Resources.

5. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

(\$000's)	March 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	\$ 5,636	\$ 8,347	\$ 1,262
Short-term investments	-	-	10,057
	\$ 5,636	\$ 8,347	\$ 11,319

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

6. 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 March 31, 2011, a provision of approximately \$1,546,000 had been made against these taxes and contributions, as it is not certain that the full value of these credits will be recovered.

7. INVENTORIES

(\$000's)	March 31, 2011	December 31, 2010	January 1, 2010
Rough diamonds	\$ 458	\$ 634	\$ -
Work-in-progress	14	132	-
Supplies	95	82	-
	\$ 567	\$ 848	\$ -

As at March 31, 2011 and December 31, 2010, diamond inventories were carried at net realizable value.

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8. LOAN RECEIVABLE

At March 31, 2011, the fair value of the long-term loan receivable from Freegold Ventures Ltd. ("Freegold") was \$820,000 (December 31, 2010 - \$802,000). The loan has a face value of \$855,000 and 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.

9. PLANT AND EQUIPMENT

(\$000's)	Plant and mining equipment	Exploration and other equipment	Vehicles	Other	Total
Balance, January 1, 2010					
Cost	\$ -	\$ 217	\$ 157	\$ 381	\$ 755
Accumulated depreciation	-	(172)	(151)	(343)	(666)
Net book value, January 1, 2010	-	45	6	38	89
Acquisition of Vaaldiam Resources	3,846	83	20	167	4,116
Additions	264	272	183	26	745
Disposals	-	(10)	(6)	(30)	(46)
Depreciation	-	(95)	(25)	(48)	(168)
Foreign exchange	267	6	3	4	280
Balance, December 31, 2010					
Cost	4,377	521	207	459	5,564
Accumulated depreciation	-	(220)	(26)	(302)	(548)
Net book value, December 31, 2010	4,377	301	181	157	5,016
Acquisition of LML	2,230	388	-	14	2,632
Additions	-	2	18	1	21
Disposals	(3)	(24)	-	-	(27)
Depreciation	-	(42)	(17)	(12)	(71)
Impairment	(2,493)	(192)	(169)	(44)	(2,898)
Foreign exchange	16	4	(1)	(1)	18
Balance, March 31, 2011					
Cost	4,127	633	18	416	5,194
Accumulated depreciation	-	(196)	(6)	(301)	(503)
Net book value, March 31, 2011	\$ 4,127	\$ 437	\$ 12	\$ 115	\$ 4,691

During the three months ended March 31, 2011, the Company acquired plant and equipment totalling \$2,653,000, which included \$2,632,000 on the acquisition of LML. During the three months ended March 31, 2011, the Company recorded depreciation of \$71,000 and disposed of equipment totalling \$27,000, which resulted in a gain of \$34,000. In addition, the Company recorded an impairment charge of \$2,898,000 with respect to the plant and equipment at the Duas Barras property (see Note 10).

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10. MINERAL PROPERTIES

The Company's mineral properties consist of the following:

(\$000's)	Production properties		Exploration properties		Total
	Duas Barras	Chapada	Brauna	Catalao	
Balance, January 1, 2010	\$ –	\$ –	\$ –	\$ –	\$ –
Acquisitions	6,605	1,777	–	9	8,391
Additions	1,393	–	–	–	1,393
Impairment	(4,927)	–	–	–	(4,927)
Foreign exchange	(117)	88	–	–	(29)
Balance, December 31, 2010	2,954	1,865	–	9	4,828
Acquisitions	–	–	13,182	–	13,182
Additions	231	–	127	–	358
Impairment	(3,172)	–	–	–	(3,172)
Foreign exchange	(13)	(8)	220	–	199
Balance, March 31, 2011	\$ –	\$ 1,857	\$ 13,529	\$ 9	\$ 15,395

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 2010, the Company completed the re-commissioning of the plant and started pre-production activities. In April 2011, the Company made the decision to suspend operations at the Duas Barras mine and place it on care and maintenance indefinitely. As a result, the Company has recorded an impairment charge of \$3,172,000 with respect to the property for the quarter ended March 31, 2011.

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. During 2010, exploration work commenced to further delineate resources on the property.

Braúna, Bahia, Brazil

In March 2011, the Company increased its ownership interest in the Braúna diamond project to 51% through its investment in LML (see Note 4). The Braúna property is located in the state of Bahia near the town of Nordestina. During 2010, a bulk sampling program was completed on the Braúna diamond project and in April 2011 a Preliminary Assessment ("PA") for the Braúna 3 Diamond Project ("B3") was completed and filed on SEDAR.

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11. INVESTMENTS

(C\$ 000's)	March 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	Cost	Carrying Value	Cost	Carrying Value	Cost
Freegold Ventures	\$ 2,033	\$ 2,156	\$ 1,469	\$ 2,156	\$ 1,559	\$ 2,203
Terraco Gold Corp.	233	395	280	395	260	395
Vaaldiam Resources Ltd.	-	-	-	-	150	150
	\$ 2,266	\$ 2,551	\$ 1,749	\$ 2,551	\$ 1,969	\$ 2,748

Freegold (TSX: FVL; Frankfurt: FR4N)

At March 31, 2011, the Company held 2,824,128 common shares of Freegold, which are considered an available-for-sale security. During the three months ended March 31, 2011, the Company recorded an unrealized gain (net of tax of \$Nil) in other comprehensive loss of \$564,000 (2010 - \$Nil).

Terraco Gold Corp. ("Terraco") (TSX-V: TEN)

On October 1, 2009, the Company received 1,000,000 common shares of Western Standard Metals Ltd. ("Western Standard") as part of the Freegold transaction. On January 25, 2011, Western Standard was acquired by Terraco and the Company received 0.75 common shares of Terraco for each Western Standard common share held.

As at March 31, 2011, the Company held 750,000 common shares of Terraco, which are considered an available-for-sale security. During the three months ended March 31, 2011, the Company recorded an unrealized loss (net of tax of \$Nil) in other comprehensive loss of \$47,000 (2010 - \$10,000).

12. INVESTMENTS IN ASSOCIATED COMPANIES

(\$000's)	March 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	Cost	Carrying Value	Cost	Carrying Value	Cost
Flemish Gold Corp.	\$ 1,805	\$ 2,161	\$ 1,805	\$ 2,161	\$ 1,673	\$ 1,673
Lipari Mineração Ltda.	-	1,185	-	1,185	-	-
	\$ 1,805	\$ 3,346	\$ 1,805	\$ 3,346	\$ 1,673	\$ 1,673

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

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had significant influence over Flemish and adopted the equity method of accounting. In October 2009, the Company's ownership percentage in Flemish decreased to 30.81%.

During 2010, Flemish issued 12,609,685 common shares at prices between \$0.215 and \$0.75 per share, which reduced the Company's ownership to 22.56%.

During the three months ended March 31, 2011, the Company recorded an equity loss of \$356,000 on the investment in Flemish (2010 – \$161,000).

Lipari Mineração Ltda.

In March 2010, the Company acquired a 20% interest in LML as part of the acquisition of Vaaldiam Resources. On March 4 2011, the Company entered into an agreement to increase its ownership interest from 20% to 51% (see Note 4). As a result, beginning on March 4, 2011, the assets, liabilities and results of operations of LML are included in these condensed interim consolidated financial statements.

During the period ended March 4, 2011, the Company recorded an equity loss of \$42,000 on the investment in LML.

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. DECOMMISSIONING LIABILITIES

(\$000's)	Three months ended March 31, 2011	Year ended December 31, 2010
Beginning balance	\$ 1,157	\$ –
Additions	52	1,016
Changes during the period	–	65
Accretion expense	5	25
Foreign exchange	(6)	51
Ending balance	\$ 1,208	\$ 1,157

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 of between 1.1% and 2.2%. The total undiscounted closure and reclamation costs are estimated at approximately \$1,234,000 and are expected to be incurred between 2013 and 2015. These closure and reclamation costs are based on management's internal estimates and are reviewed regularly to take into account any significant changes to the assumptions. However, actual costs may vary depending on market prices and other factors at the time they are actually incurred. Furthermore, the timing of these closure and reclamation costs may change depending on future operations at the mines.

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15. LOAN PAYABLE

(\$000's)	Three months ended March 31, 2011
Beginning balance	\$ –
Additions	6,047
Interest	13
Payments	(891)
Foreign exchange	3
Ending balance	\$ 5,172
Current portion	1,458
	\$ 3,714

As part of the acquisition of LML (Note 4), the Company has agreed to repay the joint venture partners for their share of contributions and bulk sample costs incurred up to the acquisition date. A payment of US\$917,000 was made on March 4, 2011 with US\$1,500,000 to be paid on August 4, 2011 and the balance of US\$3,809,000 to be paid on June 4, 2012.

16. SHAREHOLDERS' EQUITY

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, 2010		48,226,380	\$ 187,210
Share bonus scheme	(i)	2,000,000	700
Cashless stock options	(ii)	8,571	3
Shares issued on acquisition of Vaaldiam Resources	(iii)	21,153,226	6,346
Private placement	(iv)	238,636	53
Balance, December 31, 2010		71,626,813	194,312
Cashless stock options	(v)	6,666	–
Balance, March 31, 2011		71,633,479	\$ 194,312

- (i) 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.
- (ii) On March 9, 2010, 8,571 cashless stock options were exercised with a deemed value of \$3,000.
- (iii) 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 4.
- (iv) 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.
- (v) On March 8, 2011, 40,000 cashless stock options were exercised resulting in the issuance of 6,666 common shares with a deemed value of \$Nil.

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(b) Stock Options

	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 as at December 31, 2010	4,806,539	\$ 0.63
Exercised	(40,000)	0.25
Expired and forfeited	(20,000)	4.05
Outstanding and exercisable as at March 31, 2011	4,746,539	\$ 0.62

Stock options outstanding and exercisable as at March 31, 2011 are as follows:

Range of Exercise Prices	Number of Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
\$0.00 – \$0.25	484,500	2.70	\$ 0.250
\$0.26 – \$0.50	1,733,058	3.40	\$ 0.397
\$0.51 – \$0.75	1,327,584	1.95	\$ 0.702
\$0.76 – \$1.00	900,000	0.90	\$ 0.900
> \$1.00	301,397	1.15	\$ 1.250
	4,746,539	2.30	\$ 0.617

Under the Company's Stock Option Plan (the "Plan"), 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.

During the year ended December 31, 2010, the Company issued 913,724 stock options with a weighted average fair value of \$0.089 per stock option. The fair value of the stock options granted was calculated based on the Black-Scholes option pricing model using the following assumptions:

Risk-free interest rate	1.54 – 1.76%
Expected dividend yield	0.00%
Expected share price volatility	66.89 – 72.71%
Expected forfeiture rate	0.00%
Expected life of stock options	1.97 – 2.50 years

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

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issuable under the Stock Incentive Plan is 7,138,817 common shares, with no more than 5,496,889 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. 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.

During 2007, the shareholders approved the cashless settlement alternative 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, the Company has the option to issue to the option holder substituted rights which are immediately converted into an equal number of common shares.

As at March 31, 2011, the remaining number of common shares available for issuance under the Stock Option Plan was 2,416,809.

(c) Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2010	10,329,358	\$ 5.37
Issued on acquisition of Vaaldiam Resources	91,520	1.00
Expired	(4,327,109)	3.69
Outstanding at December 31, 2010 and March 31, 2011	6,093,769	\$ 6.50

Warrants outstanding at March 31, 2011 are as follows:

	Number of Warrants	Exercise Price	Expiry date
Jinchuan warrants	6,093,769	\$ 6.50	July 31, 2016

(d) Contributed Surplus

(\$000's)	
Balance, January 1, 2010	\$ 3,702
Options and warrants issued on acquisition of Vaaldiam Resources	56
Options issued under the Stock Option Plan	24
Outstanding and exercisable as at December 31, 2010 and March 31, 2011	\$ 3,782

At the time of exercise, capital stock will be credited with the amount, if any, of the outstanding contributed surplus.

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(e) Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income (loss) are as follows:

(\$000's)	March 31, 2011	December 31, 2010	January 1, 2010
Foreign exchange on intercompany loans, net of tax	\$ 242	\$ 390	\$ –
Unrealized loss on investment in Freegold, net of tax	(122)	(687)	(644)
Unrealized loss on investment in Terraco, net of tax	(163)	(115)	(135)
Cumulative currency translation adjustment	(1,175)	(1,432)	–
	\$ (1,218)	\$ (1,844)	\$ (779)

During the three months ended March 31, 2011, an unrealized loss in relation to the foreign currency translation of intercompany loans of \$148,000 (2010 – \$Nil), an unrealized gain in relation to the change in market value of investments (Note 11) of \$517,000 (2010 – loss of \$10,000) and a currency translation gain of \$257,000 (2010 – \$Nil) was recorded in other comprehensive loss.

17. OTHER INCOME AND EXPENSES

Other (income) expense for the three months ended March 31, 2011 and 2010 consists of the following:

(\$000's)	Notes	2011	2010
Provision for Brazilian taxes and contributions recoverable	6	\$ 62	\$ –
Severance costs		–	741
Transaction costs	4	–	717
Stock based compensation	16	–	703
General exploration		4	–
Depreciation	9	71	17
Kwale project		–	88
		\$ 137	\$ 2,266

18. LOSS PER SHARE

For the purpose of determining loss per share, the basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2011 was 71,628,517 (2010 – 51,353,206). 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.

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) The Company holds a 22.56% ownership interest in Flemish. Certain directors, officers and employees of the Company also hold 14,155,001 (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 11,000,001 common shares, Roland Bertin, a non-executive director, and a company controlled by him, who hold 1,750,000 common shares, and Robert

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Jackson, the President and CEO of Vaaldiam Mining, who holds 1,300,000 common shares. Mr. Potvin, as Chairman and CEO of Flemish, receives an annual salary of \$250,000 from Flemish. Mr. Jackson is also a director of Flemish and receives no compensation from Flemish. At December 31, 2010, Mr. Potvin and Mr. Jackson also held 980,000 and 480,000 stock options, respectively, at exercise prices of between \$0.50 and \$0.75 per option.

- (b) The Company charges Flemish for office space rental and related expenses. During the three months ended March 31, 2011, the Company charged Flemish \$6,600 (2010 - \$3,100) for office space rental and expenses. No other services are provided and charged for by the Company. As at March 31, 2011, there were no amounts outstanding from Flemish.
- (c) In June 2010, Eric Roblin, a partner with Fogler Rubinoff, LLP, was elected to the board of directors of the Company. As legal counsel for the Company, Mr. Roblin continues to bill the Company for his services. During the three months ended March 31, 2011, the Company was charged approximately \$20,000 for legal services provided by Mr. Roblin and Fogler Rubinoff, LLP.

20. COMMITMENTS AND CONTINGENCIES

Commitments

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

**Twelve months ending
(\$000's)**

March 31, 2012	\$	177
March 31, 2013		123
March 31, 2014		117
March 31, 2015		88
Thereafter		-
Total	\$	505

In addition the Company has a contractual commitment for exploration work to be performed at the Braúna project of approximately \$895,000 at March 31, 2011.

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.

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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 \$85,000 (R\$143,000) has been made for the claims in the 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. During 2011, the last installment of a negotiated settlement with the former employee was paid and an application has been made to the court to lift the lien.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Other non-cash items for three months ended March 31, 2011 and 2010 consist of the following:

(\$000's)	Notes	2011	2010
Interest on decommissioning liabilities	14	\$ 5	\$ -
Provision for Brazilian taxes and contributions recoverable	6	62	-
Accretion interest on Freegold loan	8	(18)	(16)
Stock based compensation	16	-	703
		\$ 49	\$ 687

Change in non-cash working capital for three months ended March 31, 2011 and 2010 consists of the following:

(\$000's)	2011	2010
(Increase) decrease in sundry receivables and prepayments	\$ (101)	\$ 92
Increase in Brazilian taxes and contributions recoverable	(123)	-
Decrease in inventories	286	-
Decrease in accounts payable and accrued liabilities	(311)	(408)
	\$ (249)	\$ (316)

Interest paid during the three months ended March 31, 2011 and 2010:

(\$000's)	2011	2010
Interest paid	\$ 5	\$ -

22. SUBSEQUENT EVENTS

Duas Barras

In April 2011, due to the lower than expected grades and higher costs, management decided to suspend operations at its Duas Barras alluvial mine and focus its resources on the Braúna project. As a result, the Company wrote down the carrying value of the mineral properties, plant and equipment to \$Nil and recorded an impairment charge of \$6,070,000 for the three months ended March 31, 2011.

Terraco

Subsequent to March 31, 2011, the Company sold its investment in Terraco for net proceeds of approximately \$230,000.

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FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(in Canadian dollars unless otherwise specified)

23. TRANSITION TO IFRS

The accounting policies as set out in Note 3 have been applied in preparing the condensed interim consolidated financial statements for the three months ended March 31, 2011, the comparative information presented for both the three months ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position as at January 1, 2010 (the date of transition to IFRS).

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 First-time Adoption of International Financial Reporting Standards, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings. IFRS 1 provides for certain exemptions to be applied on transition to IFRS. The Company has elected to apply the following exemptions which are considered significant to the Company:

- Business combinations that took place prior to transition date were not restated to conform with the requirements of IFRS 3 *Business Combinations*; and
- The requirement of IFRS 2 *Shared-based Payments* were not applied to equity instruments that were fully vested prior to the transition date.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out below.

Reconciliation of equity

(\$000's)	Notes	December 31, 2010	March 31, 2010	January 1, 2010
Equity under Canadian GAAP		\$ 21,130	\$ 27,041	\$ 22,148
Decommissioning liabilities	(i)	(227)	–	–
Foreign currency translation	(ii)	366	–	–
Share based payments	(iii)	23	56	–
Equity under IFRS		\$ 21,292	\$ 27,097	\$ 22,148

(i) Decommissioning liabilities

The Company did not have any decommissioning liabilities at January 1, 2010.

Decommissioning liabilities recorded as part of the Vaaldiam Resources acquisition were revalued under IFRS using the risk free interest rate specific to the liability prevailing on the acquisition date. As a result, the provision was increased by \$232,000 with a corresponding increase in the fair value of Duas Barras property on the acquisition date.

Under IFRS, provisions are recalculated for changes in the discount rate at each reporting period. This resulted in an increase in the decommissioning liabilities of \$64,000 at December 31, 2010 with a corresponding increase in the Duas property of \$37,000 and an increase in the Chapada property of \$27,000. At December 31, 2010, comprehensive loss increased by \$215,000 due to an increase in the impairment charge required for the Duas Barras property of \$269,000, offset by a decrease in interest expense of \$54,000. In addition, comprehensive loss increased by \$12,000 due to a change in the currency translation adjustment.

(ii) Foreign currency translation

Under IFRS, foreign operations with a functional currency different from the presentation currency are retranslated to Canadian dollar using the exchange rate prevailing on the reporting date with resulting gains and losses recorded

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(in Canadian dollars unless otherwise specified)

in a separate account in equity. Under Canadian GAAP, the Company had considered its subsidiaries to be integrated and non-monetary items were translated at historic rates with resulting gains and losses recorded in net income. As a result, net loss for the year ended December 31, 2010 decreased by \$1,396,000 due to the foreign exchange translation losses previously included in net loss under Canadian GAAP being recorded in other comprehensive loss under IFRS. Other comprehensive loss increased by \$1,030,000 due to the foreign exchange translation losses of \$1,396,000, offset by foreign exchange gains of \$366,000 due to the change in foreign exchange rates used to translate the non-monetary assets of the Company's Brazilian subsidiaries. This resulted in a net adjustment to equity of \$366,000 at December 31, 2010. There were no adjustments at January 1, 2010 or March 31, 2010 as the Company did not have any significant balances in foreign subsidiaries prior to the acquisition of Vaaldiam Resources.

(iii) Share-based payments

Under IFRS, options issued during 2010 were valued on the date of grant using the Black-Scholes option pricing model. Under Canadian GAAP, stock options were valued at the amount by which the quoted marked price exceeded the exercise price with ongoing remeasurement.

At March 31, 2010, equity increased by \$56,000 due to the revaluation of the stock options issued on the acquisition of Vaaldiam Resources. This resulted in a corresponding increase in the value of the Duas Barras property of \$33,000 and an increase in the value of the Chapada property of \$23,000 on the acquisition date. Net loss decreased by \$121,000 for the three months ended March 31, 2010 due to the reversal of the Canadian GAAP stock option expense.

At December 31, 2010, equity increased by \$23,000 due to the \$56,000 increase at March 31, 2010, offset by an increase in the impairment charge recorded on the Duas Barras property of \$33,000 as a result of the increased carrying value recorded on the acquisition. Net loss increased by \$52,000 for the year ended December 31, 2010 due to the stock option expense under IFRS of \$24,000, an increase in the impairment charge recorded on the Duas Barras property of \$33,000, offset by the reversal of the Canadian GAAP expense of \$5,000.

Reconciliation of net loss and comprehensive loss

Three months ended March 31, 2010	Canadian GAAP	Decommissioning Liabilities (i)	Foreign Currency Translation (ii)	Share-based payments (iii)	IFRS
Net loss	\$ 2,267	\$ –	\$ –	\$ (121)	\$ 2,146
Other comprehensive loss	10	–	–	–	10
Total comprehensive loss	\$ 2,277	\$ –	\$ –	\$ (121)	\$ 2,156

Year ended December 31, 2010	Canadian GAAP	Decommissioning Liabilities (i)	Foreign Currency Translation (ii)	Share-based payments (iii)	IFRS
Net loss	\$ 8,102	\$ 215	\$ (1,396)	\$ 52	\$ 6,973
Other comprehensive loss	23	12	1,030	–	1,065
Total comprehensive loss	\$ 8,125	\$ 227	\$ 366	\$ 52	\$ 8,038

Statement of Cash Flows

The IFRS adjustments noted above did not have an impact on the statement of cash flows.

Financial Statement Presentation Changes

Transition to IFRS resulted in certain changes to the presentation of the financial statements.