



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**SEPTEMBER 30, 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	September 30, 2011	December 31, 2010 (Note 22)
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 3,104	\$ 8,347
Sundry receivables and prepayments		1,084	327
Brazilian taxes and contributions recoverable	6	135	116
Due from associated company		–	126
Inventories	7	89	848
Current portion of loan receivable	8	855	802
Assets held for sale	4,9	8,217	–
		13,484	10,566
Non-current assets			
Brazilian taxes and contributions recoverable	6	283	227
Plant and equipment	10	1,882	5,016
Mineral properties	11	1,758	4,828
Other assets		137	136
Investments	12	1,977	1,749
Investments in associated companies	4,13	2,447	3,346
		\$ 21,968	\$ 25,868
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,060	\$ 2,947
Liabilities directly related to assets held for sale	4,9	7,470	–
		9,530	2,947
Non-current liabilities			
Long-term liabilities	14	471	472
Decommissioning liabilities	15	597	1,157
Total liabilities		10,598	4,576
Shareholders' equity	16	11,370	21,292
		\$ 21,968	\$ 25,868

Nature of operations and going concern (Note 1)

Subsequent events (Note 4, 9)

Commitments and contingencies (Note 20)

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) INCOME
(unaudited)

(In thousands of Canadian dollars, except per share amounts)	Notes	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
		2011	(Note 22)	2011	(Note 22)
Mine administration		\$ 225	\$ 347	\$ 916	\$ 599
Corporate and general		916	1,030	2,874	3,021
Loss (gain) on disposal of plant and equipment	10	(28)	–	(61)	1
Loss (gain) on disposal of mineral properties		–	81	–	(491)
Loss on disposal of investments	12	–	–	161	19
Equity loss on investments in associated companies	13	521	364	1,393	769
Gain on dilution of investment in associated company	13	(34)	(1,182)	(1,637)	(1,611)
Impairment of long-lived assets (reversal)	10,11	–	–	6,070	(3,182)
Impairment of assets held for sale		7,700	–	7,700	–
Other (income) expenses	17	(105)	150	360	2,445
Operating loss		9,195	790	17,776	1,570
Foreign exchange loss (gain)		394	(796)	341	(24)
Interest and other income		(58)	(675)	(132)	(805)
Interest expense		49	9	116	22
Net loss (income)		\$ 9,580	\$ (672)	\$ 18,101	\$ 763
Attributable to:					
Equity holders of Vaaldiam Mining Inc.		1,161	(672)	9,657	763
Non-controlling interest in loss of subsidiaries		8,419	–	8,444	–
		\$ 9,580	\$ (672)	\$ 18,101	\$ 763
Basic and diluted loss (income) per common share attributable to equity holders of Vaaldiam Mining Inc.	18	\$ 0.02	\$ (0.01)	\$ 0.13	\$ 0.01
Weighted average number of common shares outstanding	18	71,633,626	71,595,687	71,631,893	64,853,172
Net loss (income)		\$ 9,580	\$ (672)	\$ 18,101	\$ 763
Unrealized (gain) loss on available-for-sale investments, net of tax of \$nil	12	(283)	(224)	(463)	549
Loss on disposal of available-for-sale investments recognized in net income, net of tax of \$nil	12	–	–	(161)	(19)
Unrealized foreign exchange loss (gain) on intercompany loans, net of tax of \$nil		3,400	(284)	2,406	(573)
Currency translation adjustment, net of tax of \$nil		(1,989)	939	(1,490)	152
Comprehensive loss (income)		\$ 10,708	\$ (241)	\$ 18,393	\$ 872
Attributable to:					
Equity holders of Vaaldiam Mining Inc.		2,289	(241)	9,949	872
Non-controlling interest in loss of subsidiaries		8,419	–	8,444	–
		\$ 10,708	\$ (241)	\$ 18,393	\$ 872

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	Nine Months Ended September 30, 2010 (Note 22)	
		2011	2010
Common shares			
Balance at beginning of period		\$ 194,312	\$ 187,210
Issued on acquisition of Vaaldiam Resources Ltd.	4	–	6,346
Private placement		–	53
Issued through share bonus scheme		–	700
Exercise of cashless stock options		–	3
Balance at end of period	16(a)	194,312	194,312
Contributed surplus			
Balance at beginning of period		3,782	3,702
Stock options and warrants issued		27	80
Balance at end of period	16(d)	3,809	3,782
Deficit			
Balance at beginning of period		(174,958)	(167,985)
Net loss attributable to equity holders of Vaaldiam Mining Inc. for the period		(9,657)	(763)
Balance at end of period		(184,615)	(168,748)
Accumulated other comprehensive loss			
Balance at beginning of period		(1,844)	(779)
Unrealized (gain) loss on available-for-sale securities (net of tax of \$nil)	12	463	(549)
Loss on disposal of available-for-sale securities (net of tax of \$nil)		161	19
Unrealized foreign exchange (gain) loss on intercompany loans (net of tax of \$nil)		(2,406)	573
Currency translation adjustment		1,490	(152)
Balance at end of period		(2,136)	(888)
Total shareholders' equity at end of period		\$ 11,370	\$ 28,458
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		(8,444)	–
Balance at end of period		–	–
Total equity at end of period		\$ 11,370	\$ 28,458

See accompanying notes to condensed consolidated financial statements.

VAALDIAM MINING INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In thousands of Canadian dollars)	Notes	Nine Months Ended September 30,	
		2011	2010
Operating activities			
Net loss for the period		\$ (18,101)	\$ (763)
Depreciation	10	173	145
(Gain) loss on disposal of plant and equipment	10	(61)	1
Gain on disposal of mineral properties		–	(491)
Loss on disposal of investments	12	161	19
Equity loss on investments in associated companies	13	1,393	769
Gain on dilution of investments in associated company	13	(1,637)	(1,611)
Impairment (reversal) of mineral properties	10,11	6,070	(3,182)
Impairment of assets held for sale	9	7,700	–
Unrealized foreign exchange (gain) loss		418	(28)
Other non-cash items	21	29	722
		(3,855)	(4,419)
Change in non-cash components of working capital	21	(130)	(2,665)
Cash used in operating activities		(3,985)	(7,084)
Investing activities			
Expenditures on plant and equipment	10	(56)	(696)
Proceeds on disposal of mineral properties		–	10,351
Proceeds on disposal of plant and equipment	10	89	1
Proceeds on disposal of investments	12	234	29
Expenditures on mine development	11	(637)	(847)
Acquisition of Lipari Mineracao Ltda.	4	11	–
Transfer to assets held for sale	4,9	(60)	–
Investment in associated companies		–	(120)
Acquisition of Vaaldiam Resources Ltd.	4	–	(699)
Expenditures on other assets		(1)	(136)
Proceeds on maturity of short-term investments		–	10,057
Cash provided by (used in) investing activities		(420)	17,940
Financing activities			
Line of credit payment		–	(718)
Loan payment		(891)	–
Cash used in financing activities		(891)	(718)
Effect of foreign exchange on cash		53	(214)
Net increase (decrease) in cash and cash equivalents during the period		(5,243)	9,924
Cash and cash equivalents, beginning of period		8,347	1,262
Cash and cash equivalents, end of period		\$ 3,104	\$ 11,186

See accompanying notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 evaluation of mineral properties. 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 September 30, 2011, the Company had working capital of \$3,954,000 and has incurred losses since inception resulting in an accumulated deficit of \$184,615,000. At September 30, 2011, the Company had no consistent sources of cash and may require additional financing 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 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 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 IAS 34 *Interim Financial Reporting* ("IAS 34") and IFRS 1 *First-time Adoption of International Financial Reporting Standards* on the basis of the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") expected to be effective as at the Company's first IFRS annual reporting date of December 31, 2011. 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 and financial performance of the Company is provided in Note 22. This note includes reconciliations of equity and total comprehensive income for comparative periods 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 and nine months ended September 30, 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. 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.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

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) 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. ACCOUNTING POLICIES

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements and the unaudited condensed interim financial statements for the three months ended March 31, 2011. Note 3 to the March 31, 2011 condensed interim consolidated financial statements describes the accounting policies utilized by the Company and Note 23 to the March 31, 2011 condensed interim consolidated financial statements includes additional disclosures in connection with the Company's transition to IFRS.

4. ACQUISITIONS

Lipari Mineração Ltda.

On March 4, 2011, an agreement was signed ("March Agreement") 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 would have acted as operator for the project and would have been responsible for the financing of a feasibility study and, if proven to be economically feasible, would finance the building and development of a mine. Various milestones had been agreed to between the Company and the existing partners, and when the mine was to be built, the Company's project development cost would 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 had 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 have happened, the Company would have ceased to be operator and if the project was to be successfully developed other than by the Company, the Company's contribution to the project development cost would 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:

(\$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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

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

(\$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

On September 30, 2011, the Company entered into an agreement ("September Agreement") to terminate the March Agreement. Under the terms of the September Agreement, Vaaldiam Mining would relinquish its 51% interest in the Braúna diamond project through the sale of its subsidiaries, Oleander Financial Inc. ("OFI") and LML, to the joint venture partners in exchange for a 1% Gross Sales Royalty on all diamond production from the Braúna property. Vaaldiam Mining also maintains its rights to explore the Braúna property for gold. In addition, Vaaldiam Mining will not be required to make any further payments as specified under the March 4, 2011 agreement. The transaction is expected to be completed in November 2011. At September 30, 2011, the assets and liabilities of OFI and LML, including the Braúna property, were considered held for sale and are included on the balance sheet at fair value less costs to sell (see Note 9).

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 Mining 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:

(\$000's)	
Common shares issued (211,544,578 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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

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

(\$000's)		
Non-cash working capital deficiency	\$	(5,243)
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 nine months ended September 30, 2010, the Company expensed transaction costs of \$734,000 related to the acquisition of Vaaldiam Resources.

5. CASH AND CASH EQUIVALENTS

(\$000's)	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 3,104	\$ 8,347

Cash equivalents include 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 September 30, 2011, a provision of approximately \$1,406,000 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)	September 30, 2011	December 31, 2010
Rough diamonds	\$ 4	\$ 634
Work-in-progress	13	132
Supplies	72	82
	\$ 89	\$ 848

At September 30, 2011 and December 31, 2010, diamond inventories were carried at net realizable value.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

8. LOAN RECEIVABLE

At September 30, 2011, the fair value of the long-term loan receivable from Freegold Ventures Ltd. ("Freegold") was \$855,000 (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 October 1, 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. On September 30, 2011, the Company agreed to restructure the repayment schedule. Under the terms of the agreement Freegold paid Vaaldiam Mining \$250,000 in October 2011 and the balance of the debt is due on November 30, 2011. The portion outstanding will continue to bear interest at an annual rate of 6%.

9. ASSETS HELD FOR SALE

At September 30, 2011, assets held for sale consist of the following:

(\$000's)	Braúna assets and liabilities	Duas Barras assets and liabilities	September 30, 2011
Cash and cash equivalents	\$ 60	\$ –	\$ 60
Sundry receivables and prepayments	2	–	2
Inventories	21	–	21
Brazilian taxes and contributions recoverable	119	–	119
Plant and equipment	2,451	1,294	3,745
Mineral properties	13,023	–	13,023
Impairment	(8,753)	–	(8,753)
Assets held for sale	\$ 6,923	\$ 1,294	\$ 8,217
Accounts payable and accrued liabilities	\$ 76	\$ –	\$ 76
Provisions	–	547	547
Loan payable	6,847	–	6,847
Liabilities directly related to assets held for sale	\$ 6,923	\$ 547	\$ 7,470

In September 2011, the Company entered into an agreement to sell its 51% interest in the Braúna property (see Note 4).

On November 1, 2011, the Company entered into an agreement to sell the Duas Barras mineral rights and its plant and equipment for R\$1,330,000, of which a non-refundable deposit of R\$250,000 was received on November 7, 2011. The sale is expected to close in November 2011 when the definitive agreements will be signed and the balance of the proceeds received.

The Company recorded a loss of \$7,700,000 as a result of revaluing the assets held for sale to fair value less costs to sell. The loss consists of a loss of \$8,994,000 on the Braúna assets and liabilities, including the impairment loss recorded on the mineral property, and a gain of \$1,294,000 on the Duas Barras property as a result of the reversal of impairment recorded in prior periods.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

10. 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	36	56
Disposals	(3)	(24)	-	(1)	(28)
Depreciation	-	(118)	(20)	(35)	(173)
Transfer to assets held for sale	(2,119)	(294)	-	(38)	(2,451)
Impairment	(2,493)	(192)	(169)	(44)	(2,898)
Foreign exchange	(241)	(23)	(2)	(6)	(272)
Balance, September 30, 2011					
Cost	1,751	206	17	401	2,375
Accumulated depreciation	-	(166)	(9)	(318)	(493)
Net book value, September 30, 2011	\$ 1,751	\$ 40	\$ 8	\$ 83	\$ 1,882

During the nine months ended September 30, 2011, the Company acquired plant and equipment totalling \$2,688,000, which included \$2,632,000 on the acquisition of LML (see Note 4), recorded depreciation of \$173,000 and disposed of equipment totalling \$28,000, which resulted in a gain of \$61,000. 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 11) and transferred \$2,451,000 to assets held for sale (see Note 9).

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

11. 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	–	458	–	689
Transfer to assets held for sale	–	–	(13,023)	–	(13,023)
Impairment	(3,172)	–	–	–	(3,172)
Foreign exchange	(13)	(116)	(617)	–	(746)
Balance, September 30, 2011	\$ –	\$ 1,749	\$ –	\$ 9	\$ 1,758

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 recorded an impairment charge of \$3,172,000 with respect to the property during the quarter ended March 31, 2011. On November 1, 2011, the Company entered into an agreement to sell the Duas Barras mineral rights and its plant and equipment (see Note 9).

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

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. In March 2011, the Company increased its ownership interest in the Braúna diamond project to 51% through its investment in LML (see Note 4). In September 2011, the Company agreed to relinquish its 51% interest in the Braúna diamond project to the joint venture partners (see Note 4). At September 30, 2011, the assets and liabilities of LML, including the Braúna property, were considered held for sale and are included on the balance sheet at fair value less costs to sell (see Note 9).

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

12. INVESTMENTS

(\$ 000's)	September 30, 2011		December 31, 2010	
	Carrying Value	Cost	Carrying Value	Cost
Freegold Ventures	\$ 1,977	\$ 2,156	\$ 1,469	\$ 2,156
Terraco Gold Corp.	–	–	280	395
	\$ 1,977	\$ 2,156	\$ 1,749	\$ 2,551

Freegold (TSX: FVL; Frankfurt: FR4N)

At September 30, 2011 and December 31, 2010, the Company held 2,824,128 common shares of Freegold, which are considered an available-for-sale security.

In May 2010, the Company sold 380,000 shares of Freegold for proceeds of \$29,000, resulting in a realized loss of \$19,000 recognized in net loss, with a corresponding reversal of unrealized loss previously recorded in other comprehensive loss.

During the nine months ended September 30, 2011, the Company recorded an unrealized gain of \$508,000 (2010 - unrealized loss of \$514,000) in other comprehensive loss.

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 750,000 common shares of Terraco in exchange for the 1,000,000 Western Standard common shares held.

In May 2011, the Company sold 750,000 shares of Terraco for net proceeds of \$234,000, resulting in a realized loss of \$161,000 recognized in net loss, with a corresponding reversal of unrealized loss previously recorded in other comprehensive loss.

During the nine months ended September 30, 2011, the Company recorded an unrealized loss of \$45,000, (2010 - \$35,000) in other comprehensive loss.

13. INVESTMENTS IN ASSOCIATED COMPANIES

(\$000's)	September 30, 2011	December 31, 2010
Flemish Gold Corp.	\$ 2,447	\$ 2,161
Lipari Mineração Ltda.	–	1,185
	\$ 2,447	\$ 3,346

Flemish Gold Corp. (formerly Kivu Gold Corp.)

At September 30, 2011, the Company owned 10,625,000 common shares of Flemish Gold Corp. ("Flemish"), a private corporation incorporated under the Canada Business Corporations Act focusing on precious metals exploration in sub-Saharan Africa.

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%.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

During the three and nine months ended September 30, 2011, the Company recorded an equity loss of \$521,000 and \$1,351,000, respectively on the investment in Flemish (2010 – \$362,000 and \$763,000, respectively).

In May 2011, Flemish completed a private placement of 10,180,000 common shares at \$1.00 per share, which resulted in a dilution gain of \$1,603,000. In September 2011, the Company issued an additional 240,000 common shares at \$1.00 per share, which resulted in a dilution gain of \$34,000.

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 consolidated in these condensed interim consolidated financial statements. On September 30, 2011, the Company entered into an agreement (“September Agreement”) to terminate the March 4, 2011 agreement. As part of the September Agreement, the Company sold its ownership interest in LML. At September 30, 2011, the assets and liabilities of LML were considered held for sale and are included on the balance sheet at fair value less costs to sell (see Note 9).

During the period ended March 4, 2011, the Company recorded an equity loss of \$42,000 on the investment in LML. During the three and nine months ended September 30, 2010, the Company recorded an equity loss of \$2,000 and \$6,000, respectively on the investment in LML.

14. 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.

15. DECOMMISSIONING LIABILITIES

(\$000's)	Nine months ended September 30, 2011	Year ended December 31, 2010
Beginning balance	\$ 1,157	\$ –
Additions	52	1,016
Changes during the period	–	65
Accretion expense	11	25
Transferred to liabilities held for sale	(547)	–
Foreign exchange	(76)	51
Ending balance	\$ 597	\$ 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. On November 1, 2011, the Company entered into an agreement to sell the Duas Barras mineral rights and its plant and equipment (see Note 9). As a result, the decommissioning liability has been transferred to liabilities held for sale at September 30, 2011.

The Company has estimated the net present value of the obligations using discount rates of between 1.1% and 2.2%. At September 30, 2011 the total undiscounted closure and reclamation costs are estimated at approximately \$612,000 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.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

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
Adjustment to shares issued on acquisition of Vaaldiam Resources	(iii)	1,232	-
Cashless stock options	(v)	6,666	-
Balance, September 30, 2011		71,634,711	\$ 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. The number of common shares issued was amended in September 2011 for an additional 1,232 common shares.
- (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.

(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
Granted	250,000	0.26
Exercised	(40,000)	0.25
Expired and forfeited	(20,000)	4.05
Outstanding and exercisable as at September 30, 2011	4,996,539	\$ 0.60

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

Stock options outstanding and exercisable as at September 30, 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	2.19	\$ 0.25
\$0.26 – \$0.50	1,983,058	3.10	\$ 0.38
\$0.51 – \$0.75	1,327,584	1.44	\$ 0.70
\$0.76 – \$1.00	900,000	0.40	\$ 0.90
> \$1.00	301,397	0.64	\$ 1.25
	4,996,539	1.94	\$ 0.60

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 nine months ended September 30, 2011, the Company issued 250,000 stock options with a weighted average fair value of \$0.108. 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:

	2011	2010
Risk-free interest rate	2.09%	1.54 – 1.76%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	66.19%	66.89 – 72.71%
Expected forfeiture rate	0.00%	0.00%
Expected life of stock options	2.50 years	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 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 September 30, 2011, the remaining number of common shares available for issuance under the Stock Option Plan was 2,166,686.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

(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 September 30, 2011	6,093,769	\$ 6.50

Warrants outstanding at September 30, 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
Balance, December 31, 2010	\$ 3,782
Options issued under the Stock Option Plan	27
Balance, September 30, 2011	\$ 3,809

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

17. OTHER INCOME AND EXPENSES

Other (income) expense for the three and nine months ended September 30, 2011 and 2010 consists of the following:

(\$000's)	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Provision for Brazilian taxes and contributions recoverable (reversal)	6	\$ (159)	\$ 41	\$ (61)	\$ 24
Severance costs		(5)	-	209	741
Transaction costs	4	-	-	-	734
Stock based compensation	16	-	24	27	727
General exploration		8	26	12	26
Depreciation	10	51	61	173	145
Kwale project		-	(2)	-	48
		\$ (105)	\$ 150	\$ 360	\$ 2,445

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

18. LOSS (INCOME) PER SHARE

For the purpose of determining loss per share, the basic and diluted weighted average number of common shares outstanding for the three and nine months ended September 30, 2011 were 71,633,626 and 71,631,893 (2010 – 71,595,687 and 64,853,172). 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 an 18.47% ownership interest in Flemish. Certain directors, officers and employees of the Company also hold 14,448,001 (25.12%) 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 11,093,001 common shares, Roland Bertin, a non-executive director, and a company controlled by him, who hold 1,950,000 common shares, and Robert 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 September 30, 2011, 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 nine months ended September 30, 2011, the Company charged Flemish \$17,600 (2010 - \$16,300) for office space rental and expenses. No other services are provided and charged for by the Company.
- (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 nine months ended September 30, 2011, the Company was charged approximately \$97,000 (2010 - \$27,000) 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)		
September 30, 2012	\$	153
September 30, 2013		116
September 30, 2014		117
September 30, 2015		29
Thereafter		–
Total	\$	415

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

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 assessments 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 approximately \$136,000 (R\$243,000) has been made for the claims in the consolidated financial statements.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Other non-cash items for nine months ended September 30, 2011 and 2010 consist of the following:

(\$000's)	Notes	2011	2010
Interest on decommissioning liabilities	15	\$ 11	\$ 17
Provision for Brazilian taxes and contributions recoverable	6	(61)	24
Accretion interest on Freegold loan	8	(53)	(46)
Stock based compensation	16	27	727
Interest on loan payable		105	-
		\$ 29	\$ 722

Change in non-cash working capital for nine months ended September 30, 2011 and 2010 consists of the following:

(\$000's)	2011	2010
(Increase) decrease in sundry receivables and prepayments	\$ (112)	\$ 49
Increase in Brazilian taxes and contributions recoverable	(61)	(108)
Decrease (increase) in inventories	743	(105)
Decrease in accounts payable and accrued liabilities	(700)	(2,501)
	\$ (130)	\$ (2,665)

22. TRANSITION TO IFRS

In preparing its IFRS statement of financial position as at September 30, 2010, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. A reconciliation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position at September 30, 2010 and its financial performance and cash flows for the three and nine months ended September 30, 2010 is set out below. Reconciliations for the Company's financial position at January 1, 2010 and December 31, 2010 and its financial performance and cash flows for the year ended December 31, 2010 were included in the notes to the condensed interim consolidated financial statements for the three months ended March 31, 2011.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

Reconciliation of equity

(\$000's)	Notes	September 30, 2010
Equity under Canadian GAAP		\$ 27,636
Decommissioning liabilities	(i)	21
Foreign currency translation	(ii)	745
Share based payments	(iii)	56
Equity under IFRS		\$ 28,458

Reconciliation of total comprehensive loss

(\$000's)	Notes	Three months ended September 30, 2010	Nine months ended September 30, 2010
Total comprehensive (income) loss under Canadian GAAP		\$ (3,075)	\$ 1,652
Decommissioning liabilities	(i)	(12)	(21)
Foreign currency translation	(ii)	(338)	(745)
Share based payments	(iii)	2	(14)
Reversal of impairment of exploration properties	(iv)	3,182	-
Total comprehensive (income) loss under IFRS		\$ (241)	\$ 872

(i) Decommissioning liabilities

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, at March 23, 2010, the provision was increased by \$232,000 with a corresponding increase in the fair value of Duas Barras property on the acquisition.

At September 30, 2010, equity increased by \$21,000 due to a decrease in interest expense of \$35,000 offset by an increase in other comprehensive loss of \$14,000 due to 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 dollars using the exchange rate prevailing on the reporting date with resulting gains and losses recorded 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, equity at September 30, 2010 increased by \$745,000 due to the change in foreign exchange rates used to translate the non-monetary assets of the Company's Brazilian subsidiaries.

(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 September 30, 2010, equity increased by \$56,000 due to the revaluation of the stock options issued on the acquisition of Vaaldiam Resources.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

(in Canadian dollars unless otherwise specified)

For the three months ended September 30, 2010, total comprehensive income decreased by \$2,000 due to the recognition of \$24,000 on the issue of stock options offset by the reversal of the Canadian GAAP intrinsic value expense of \$22,000. For the nine months ended September 30, 2010, total comprehensive loss decreased by \$14,000 due to the reversal of the Canadian GAAP intrinsic value expense of \$38,000 offset by the recognition of \$24,000 on the issue of stock options.

(iv) Impairment of exploration properties

Under IFRS, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying value cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior periods. Under Canadian GAAP, impairment losses are not reversed for subsequent increases in recoverable amounts.

As at June 30, 2010, under IFRS, the Company determined that the recoverable amount for the Kwale project was greater than the carrying value, resulting in the reversal of a previously recorded impairment charge and a decrease in total comprehensive loss of \$3,182,000. Under Canadian GAAP, this gain was recorded as part of the gain on sale of the Kwale project during the three months ended September 30, 2010.