



CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 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	June 30, 2011	December 31, 2010 (Note 22)
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 4,241	\$ 8,347
Sundry receivables and prepayments		250	327
Brazilian taxes and contributions recoverable	6	657	116
Due from associated company		–	126
Inventories	7	120	848
Current portion of loan receivable	8	838	802
		6,106	10,566
Non-current assets			
Brazilian taxes and contributions recoverable	6	389	227
Plant and equipment	9	4,837	5,016
Mineral properties	10	15,874	4,828
Other assets		137	136
Investments	11	1,694	1,749
Investments in associated companies	4, 12	2,933	3,346
		\$ 31,970	\$ 25,868
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,740	\$ 2,947
Current portion of loan payable	15	5,177	–
		7,917	2,947
Non-current liabilities			
Long-term liabilities	13	719	472
Decommissioning liabilities	14	1,255	1,157
Total liabilities		9,891	4,576
Non-controlling interest	4	8,419	–
Shareholders' equity	16	13,660	21,292
		\$ 31,970	\$ 25,868

Going concern (Note 1)

Subsequent events (Note 4)

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 June 30, 2010		Six Months Ended June 30, 2010	
		2011	(Note 22)	2011	(Note 22)
Mine administration		\$ 354	\$ 252	\$ 691	\$ 252
Corporate and general		1,046	1,347	1,958	1,991
Loss (gain) on disposal of plant and equipment	9	1	1	(33)	1
Gain on disposal of mineral properties		–	–	–	(572)
Loss on disposal of investments	11	161	19	161	19
Equity loss on investments in associated companies	12	474	244	872	405
Gain on dilution of investment in associated company	12	(1,603)	–	(1,603)	(429)
Impairment of long-lived assets (reversal)	9, 10	–	(3,182)	6,070	(3,182)
Other expenses	17	328	29	465	2,295
Operating loss (income)		761	(1,290)	8,581	780
Foreign exchange loss (gain)		101	651	(53)	772
Interest and other income		(38)	(85)	(74)	(130)
Interest expense		49	13	67	13
Net loss (income)		\$ 873	\$ (711)	\$ 8,521	\$ 1,435
Attributable to:					
Equity holders of Vaaldiam Mining Inc.		855	(711)	8,496	1,435
Non-controlling interest in loss of subsidiaries		18	–	25	–
		\$ 873	\$ (711)	\$ 8,521	\$ 1,435
Basic and diluted loss per common share attributable to equity holders of Vaaldiam Mining Inc.	18	\$ 0.01	\$ (0.01)	\$ 0.12	\$ 0.02
Weighted average number of common shares outstanding	18	71,633,479	71,388,177	71,631,011	61,426,037
Net loss (income)		\$ 873	\$ (711)	\$ 8,521	\$ 1,435
Unrealized (gain) loss on available-for-sale investments, net of tax of \$nil	11	337	763	(180)	773
Loss on disposal of available-for-sale investments recognized in net income, net of tax of \$nil	11	(161)	(19)	(161)	(19)
Unrealized foreign exchange loss on intercompany loans, net of tax of \$nil		(1,142)	(289)	(994)	(289)
Currency translation adjustment, net of tax of \$nil		755	(787)	498	(787)
Comprehensive loss (income)		\$ 662	\$ (1,043)	\$ 7,684	\$ 1,113
Attributable to:					
Equity holders of Vaaldiam Mining Inc.		644	(1,043)	7,659	1,113
Non-controlling interest in loss of subsidiaries		18	–	25	–
		\$ 662	\$ (1,043)	\$ 7,684	\$ 1,113

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	Six Months Ended June 30, 2010	
		June 30, 2011	(Note 22)
Common shares			
Balance at beginning of period		\$ 194,312	\$ 187,210
Issued on acquisition of Vaaldiam Resources Ltd.	4	–	6,346
Private placement		–	–
Issued through share bonus scheme		–	700
Exercise of cashless stock options		–	3
Balance at end of period	16(a)	194,312	194,259
Contributed surplus			
Balance at beginning of period		3,782	3,702
Stock options and warrants issued		27	56
Balance at end of period	16(d)	3,809	3,758
Deficit			
Balance at beginning of period		(174,958)	(167,985)
Net loss attributable to equity holders of Vaaldiam Mining Inc. for the period		(8,496)	(1,435)
Balance at end of period		(183,454)	(169,420)
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)	11	180	(773)
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)		994	289
Currency translation adjustment		(498)	787
Balance at end of period	16(e)	(1,007)	(457)
Total shareholders' equity at end of period		\$ 13,660	\$ 28,140
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		(25)	–
Balance at end of period		8,419	–
Total equity at end of period		\$ 22,079	\$ 28,140

See accompanying notes to condensed consolidated financial statements.

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

(Expressed in thousands of Canadian dollars)	Notes	Six Months Ended June 30,	
		2011	2010
Operating Activities			
Net (loss) income for the period		\$ (8,521)	\$ (1,435)
Depreciation	9	122	84
(Gain) loss on disposal of plant and equipment	9	(33)	1
Gain on disposal of mineral properties		–	(572)
Loss on disposal of investments	11	161	19
Equity loss on investments in associates	12	872	405
Gain on dilution of investments in associates	12	(1,603)	(429)
Impairment of mineral properties	9, 10	6,070	(3,182)
Unrealized foreign exchange (gain) loss		(532)	811
Other non-cash items	21	156	679
		(3,308)	(3,619)
Change in non-cash components of working capital	21	104	(2,435)
Cash used in operating activities		(3,204)	(6,054)
Investing Activities			
Expenditures on plant and equipment	9	(52)	(412)
Proceeds on disposal of mineral properties		–	7,250
Proceeds on disposal of plant and equipment	9	61	1
Proceeds on disposal of investments	11	234	29
Expenditures on mine development	10	(230)	–
Acquisition of Lipari Mineracao Ltda.	4	11	–
Acquisition of Vaaldiam Resources Ltd.	4	–	(699)
Expenditures on other assets		(1)	(138)
Proceeds on maturity of short-term investments		–	10,057
Cash provided by (used in) investing activities		23	16,088
Financing Activities			
Line of credit payment		–	(718)
Loan payment	15	(891)	–
Cash used in financing activities		(891)	(718)
Effect of foreign exchange on cash		(34)	(100)
Net increase (decrease) in cash and cash equivalents during the period		(4,106)	9,216
Cash and cash equivalents, beginning of period		8,347	1,262
Cash and cash equivalents, end of period		\$ 4,241	\$ 10,478

See accompanying notes to condensed consolidated financial statements.

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

(in Canadian dollars unless otherwise specified)

1. REPORTING ENTITY

Vaaldiam Mining Inc. (the "Company" or "Vaaldiam Mining") (TSX: VAA), 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. 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 June 30, 2011, the Company had a working capital deficit of \$1,811,000 and had incurred losses since inception resulting in an accumulated deficit of \$183,454,000. As at June 30, 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. The Company has a current loan payable of US\$5,309,000 with a payment of US\$1,500,000 due on August 4, 2011 and the balance of US\$3,809,000 to be paid on June 4, 2012 (see Notes 4 and 15). In view of the fact that market appetite for risks has decreased, the company's current strategy is to reduce costs where possible and delay expenditures until the markets for junior resource equities and its non-core assets improve. The Company will not be making the August 4, 2011 payment on time and is now in discussion with its partners to work out a mutually acceptable arrangement for addressing this payment. 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 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 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*. 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 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.

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

(in Canadian dollars unless otherwise specified)

(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 six months ended June 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.

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. 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 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

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

(in Canadian dollars unless otherwise specified)

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

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

Under the terms of the March 4, 2011 agreement, US\$1.5 million would become due to the partners on August 4, 2011. The Company will not be making this payment and is now in discussion with its partners to work out a mutually acceptable arrangement for addressing this payment.

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.

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

(in Canadian dollars unless otherwise specified)

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

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 and six months ended June 30, 2010, the Company expensed transaction costs of \$17,000 and \$717,000, respectively, related to the acquisition of Vaaldiam Resources.

5. CASH AND CASH EQUIVALENTS

(\$000's)	June 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 4,241	\$ 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 June 30, 2011, a provision of approximately \$1,467,000 had been made against these taxes and contributions, as it is not certain that the full value of these credits will be recovered.

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

(in Canadian dollars unless otherwise specified)

7. INVENTORIES

(\$000's)	June 30, 2011	December 31, 2010
Rough diamonds	\$ 4	\$ 634
Work-in-progress	14	132
Supplies	102	82
	\$ 120	\$ 848

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

8. LOAN RECEIVABLE

At June 30, 2011, the fair value of the long-term loan receivable from Freegold Ventures Ltd. ("Freegold") was \$838,000 (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	32	52
Disposals	(3)	(24)	-	(1)	(28)
Depreciation	-	(80)	(19)	(23)	(122)
Impairment	(2,493)	(192)	(169)	(44)	(2,898)
Foreign exchange	166	17	-	2	185
Balance, June 30, 2011					

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

(in Canadian dollars unless otherwise specified)

Cost	4,277	619	19	450	5,365
Accumulated depreciation	–	(207)	(8)	(313)	(528)
Net book value, June 30, 2011	\$ 4,277	\$ 412	\$ 11	\$ 137	\$ 4,837

During the six months ended June 30, 2011, the Company acquired plant and equipment totalling \$2,684,000, which included \$2,632,000 on the acquisition of LML. During the six months ended June 30, 2011, the Company recorded depreciation of \$122,000 and disposed of equipment totalling \$28,000, which resulted in a gain of \$33,000. 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).

During the six months ended June 30, 2010, the Company acquired plant and equipment totalling \$4,861,000, which included \$4,116,000 on the acquisition of Vaaldiam Resources. During the six months ended June 30, 2010, the Company recorded depreciation of \$168,000 and disposed of equipment totalling \$46,000, which resulted in a loss of \$1,000.

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	–	51	–	282
Impairment	(3,172)	–	–	–	(3,172)
Foreign exchange	(13)	59	707	1	754
Balance, June 30, 2011	\$ –	\$ 1,924	\$ 13,940	\$ 10	\$ 15,874

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.

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

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

(in Canadian dollars unless otherwise specified)

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.

11. INVESTMENTS

(C\$ 000's)	June 30, 2011		December 31, 2010	
	Carrying Value	Cost	Carrying Value	Cost
Freegold Ventures	\$ 1,694	\$ 2,156	\$ 1,469	\$ 2,156
Terraco Gold Corp.	–	–	280	395
	\$ 1,694	\$ 2,156	\$ 1,749	\$ 2,551

Freegold (TSX: FVL; Frankfurt: FR4N)

During the three and six months ended June 30, 2011, the Company recorded an unrealized loss of \$339,000 and an unrealized gain of \$225,000, respectively (2010 - \$683,000 and \$683,000, respectively) in other comprehensive loss.

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.

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

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.

During the three and six months ended June 30, 2011, the Company recorded an unrealized gain of \$2,000 and an unrealized loss of \$45,000, respectively (2010 - \$80,000 and \$10,000, respectively) in other comprehensive loss.

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.

12. INVESTMENTS IN ASSOCIATED COMPANIES

(\$000's)	June 30, 2011		December 31, 2010	
Flemish Gold Corp.	\$ 2,933		\$ 2,161	
Lipari Mineração Ltda.		–		1,185
	\$ 2,933		\$ 3,346	

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

(in Canadian dollars unless otherwise specified)

Flemish Gold Corp. (formerly Kivu Gold Corp.)

At June 30, 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%.

During the three and six months ended June 30, 2011, the Company recorded an equity loss of \$474,000 and \$830,000, respectively on the investment in Flemish (2010 – \$240,000 and \$401,000, respectively). In May 2011, Flemish completed a private placement of 10,180,000 common shares at \$1.00 per share, which reduced the Company's ownership to 18.55% and resulted in a dilution gain of \$1,603,000.

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.

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)	Six months ended June 30, 2011	Year ended December 31, 2010
Beginning balance	\$ 1,157	\$ –
Additions	52	1,016
Changes during the period	–	65
Accretion expense	8	25
Foreign exchange	38	51
Ending balance	\$ 1,255	\$ 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 \$1,278,000 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 SIX MONTHS ENDED JUNE 30, 2011**

(in Canadian dollars unless otherwise specified)

15. LOAN PAYABLE

(\$000's)	Six months ended June 30, 2011
Beginning balance	\$ –
Additions	6,047
Interest	59
Payments	(891)
Foreign exchange	(38)
	\$ 5,177

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 (see Note 4).

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, June 30, 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.

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

(in Canadian dollars unless otherwise specified)

(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 June 30, 2011	4,996,539	\$ 0.60

Stock options outstanding and exercisable as at June 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	2.45	\$ 0.250
\$0.26 – \$0.50	1,983,058	3.35	\$ 0.380
\$0.51 – \$0.75	1,327,584	1.70	\$ 0.702
\$0.76 – \$1.00	900,000	0.65	\$ 0.900
> \$1.00	301,397	0.90	\$ 1.250
	4,996,539	2.19	\$ 0.599

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 six months ended June 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

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

(in Canadian dollars unless otherwise specified)

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 June 30, 2011, the remaining number of common shares available for issuance under the Stock Option Plan was 2,166,809.

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

Warrants outstanding at June 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, June 30, 2011	\$ 3,809

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

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

(in Canadian dollars unless otherwise specified)

17. OTHER INCOME AND EXPENSES

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

(\$000's)	Notes	Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Provision for Brazilian taxes and contributions recoverable	6	\$ 36	\$ (17)	\$ 98	\$ (17)
Severance costs		214	-	214	741
Transaction costs	4	-	17	-	734
Stock based compensation	16	27	-	27	703
General exploration		-	-	4	-
Depreciation	9	51	67	122	84
Kwale project		-	(38)	-	50
		\$ 328	\$ 29	\$ 465	\$ 2,295

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 and six months ended June 30, 2011 were 71,633,479 and 71,631,011 (2010 – 71,388,177 and 61,426,037). 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 18.55% ownership interest in Flemish. Certain directors, officers and employees of the Company also hold 14,448,001 (25.23%) 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 June 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 six months ended June 30, 2011, the Company charged Flemish \$13,200 (2010 - \$10,300) for office space rental and expenses. No other services are provided and charged for by the Company. As at June 30, 2011, an amount of approximately \$4,000 was due from Flemish and is included in sundry receivables.
- (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 six months ended June 30, 2011, the Company was charged approximately \$57,000 (2010 - \$11,000) for legal services provided by Mr. Roblin and Fogler Rubinoff, LLP.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011**
(in Canadian dollars unless otherwise specified)

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)**

June 30, 2012	\$	167
June 30, 2013		116
June 30, 2014		117
June 30, 2015		59
Thereafter		–
Total	\$	459

In addition, at June 30, 2011, the Company has a contractual commitment for exploration work to be performed at the Braúna project of approximately \$895,000.

Contingencies for Lawsuits and Tax Assessments

Subsidiaries of the Company have been served claims by former employees in Brazil in relation to wrongful dismissal, lost wages, overtime and reimbursement of expenses. In addition, certain subsidiaries of the Company have outstanding assessments from the Brazilian tax authorities with respect to prior period filings and outstanding balances. Some of these claims and assessments are still subject to court judgment, while others are in the process of being appealed.

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

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

In the opinion of management and on advice of legal counsel, these matters are without merit; however, based on the expected outcome of these claims, a provision of approximately \$139,000 (R\$224,000) has been made for the claims in the consolidated financial statements.

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000's)	Notes	2011	2010
Interest on decommissioning liabilities	14	\$ 8	\$ 8
Provision for Brazilian taxes and contributions recoverable	6	98	–
Accretion interest on Freegold loan	8	(36)	(32)
Stock based compensation	16	27	703
Interest on loan payable	15	59	–
		\$ 156	\$ 679

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

(in Canadian dollars unless otherwise specified)

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

(\$000's)	2011	2010
(Increase) decrease in sundry receivables and prepayments	\$ 52	\$ 49
Increase in Brazilian taxes and contributions recoverable	(702)	(58)
Decrease (increase) in inventories	733	(2)
Decrease in accounts payable and accrued liabilities	21	(2,424)
	\$ 104	\$ (2,435)

Interest paid during the six months ended June 30, 2011 and 2010:

(\$000's)	2011	2010
Interest paid	\$ 8	\$ 5

22. TRANSITION TO IFRS

The Company 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, 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 IFRS statement of financial position as at June 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 June 30, 2010 and its financial performance and cash flows for the three and six months ended June 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.

Reconciliation of equity

(\$000's)	Notes	June 30, 2010
Equity under Canadian GAAP		\$ 24,486
Decommissioning liabilities	(i)	9
Foreign currency translation	(ii)	407
Share based payments	(iii)	56
Impairment of exploration properties	(iv)	3,182
Equity under IFRS		\$ 28,140

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

(in Canadian dollars unless otherwise specified)

Reconciliation of total comprehensive loss

(\$000's)	Notes	Three months ended June 30, 2010	Six months ended June 30, 2010
Total comprehensive loss under Canadian GAAP		\$ 2,450	\$ 4,727
Decommissioning liabilities	(i)	(9)	(9)
Foreign currency translation	(ii)	(407)	(407)
Share based payments	(iii)	105	(16)
Impairment of exploration properties	(iv)	(3,182)	(3,182)
Total comprehensive (income) loss under IFRS		\$ (1,043)	\$ 1,113

(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 June 30, 2010, equity increased by \$9,000 due to a decrease in interest expense of \$17,000 offset by an increase in other comprehensive loss of \$8,000 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 dollar 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 June 30, 2010 increased by \$407,000 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 June 30, 2010, equity increased by \$56,000 due to the revaluation of the stock options issued on the acquisition of Vaaldiam Resources.

For the three months ended June 30, 2010, total comprehensive loss decreased by \$16,000 due to the reversal of the Canadian GAAP intrinsic value expense. For the six months ended June 30, 2010, total comprehensive loss increased by \$105,000 due to the reversal of the Canadian GAAP intrinsic value expense.

(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 a decrease in total comprehensive loss of \$3,182,000.