

Brazilian Diamonds Limited

(a development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Management's Responsibility for Financial Reporting

The financial statements and information in the Annual Report are the responsibility of management. The financial statements are prepared in accordance with accounting principles generally accepted in Canada and where appropriate, reflect management's best estimates and judgments, based on currently available information. Management maintains internal accounting controls and review procedures and believes these provide reasonable, cost effective assurance of the reliability and relevance of financial information.

The Audit Committee of the Board of Directors is composed of three Directors, two of whom are outside Directors. The Committee meets periodically with management and the independent auditors to review the scope and results of the annual audit, the financial statements and related financial reporting matters, prior to submitting the financial statements to the Board for approval.

The Company's independent auditors are appointed by the shareholders. Their report outlines the scope of their examination and their opinion on the consolidated financial statements.

K. P. Judge
Chairman of the Board

S. L. Fabian
Chief Executive Officer

April 29, 2010

AUDITORS' REPORT

To the Shareholders of
Brazilian Diamonds Limited

We have audited the consolidated balance sheet of Brazilian Diamonds Limited as at December 31, 2009 and the consolidated statements of loss and deficit, comprehensive loss, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2008 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated March 30, 2009.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 29, 2010



Brazilian Diamonds Limited

(a development stage company)

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	December 31, 2009 \$	December 31, 2008 \$
Assets		
Current assets		
Cash and cash equivalents	89	83
Accounts receivable, prepaids and deposits (note 13)	142	204
Other assets (note 6)	373	-
Due from related parties (note 13)	160	11
Assets held for sale (note 6)	801	-
	<hr/> 1,565	<hr/> 298
Investments (note 7)	191	68
Intangible asset (note 10)	-	264
Property, plant and equipment (note 8)	262	823
Mineral properties (note 9)	700	1,492
	<hr/> 2,718	<hr/> 2,945
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	257	309
Due to related parties (note 13)	738	318
Deposits (note 6)	765	-
	<hr/> 1,760	<hr/> 627
Asset retirement obligation (note 15)	125	100
	<hr/> 1,885	<hr/> 727
Shareholders' Equity		
Capital stock (note 11)	95,316	95,326
Contributed surplus (note 11)	3,336	3,336
Deficit	(97,680)	(96,182)
Accumulated other comprehensive loss (note 11)	(139)	(262)
	<hr/> 833	<hr/> 2,218
	<hr/> 2,718	<hr/> 2,945
Nature of Operations and Going Concern (note 1)		
Commitments and Contingencies (note 14)		

Approved on behalf of the board:

Kenneth Judge Director

Stephen Fabian Director

The accompanying notes form an integral part of these consolidated financial statements.

Brazilian Diamonds Limited

(a development stage company)

Consolidated Statements of Loss and Deficit

(expressed in thousands of Canadian dollars, except per share amounts)

	Year ended December 31, 2009	Year ended December 31, 2008
	\$	\$
Expenses		
Amortization	95	398
Bad debt	51	-
Corporate administrative services	42	80
Consultants	193	211
Exploration costs	337	2,453
Foreign exchange loss	60	21
Insurance	12	45
Interest income	-	(5)
Investor relations	30	122
Legal and audit	120	125
Office costs	402	139
Regulatory	78	120
Salaries and management fees	138	126
Travel	-	29
	<u>(1,558)</u>	<u>(3,864)</u>
Other income (expenses)		
Royalties (note 13)	53	-
Unrealized gain on Hidefield options (note 7)	-	19
Gain on sale of investments (note 7)	-	98
Gain on sale of assets	180	71
Gain on sale of mineral properties (note 13)	210	-
Write-down of intangible assets (note 10)	(238)	(1,583)
Write-down of mineral properties (note 9)	(121)	(2,271)
Write-down of property, plant and equipment (note 8)	(24)	(243)
	<u>60</u>	<u>(3,909)</u>
Loss for the year before income taxes	(1,498)	(7,773)
Future income tax expense (note 16)	-	(192)
Loss for the year	<u>(1,498)</u>	<u>(7,965)</u>
Deficit - Beginning of year	(96,182)	(88,217)
Deficit - End of year	<u>(97,680)</u>	<u>(96,182)</u>
Loss per common share - basic and diluted	<u>(0.08)</u>	<u>(0.42)</u>
Weighted average common shares outstanding (000's)	<u>19,437</u>	<u>18,834</u>

The accompanying notes form an integral part of these consolidated financial statements.

Brazilian Diamonds Limited

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Consolidated Statements of Comprehensive Loss

(expressed in thousands of Canadian dollars)

	Year ended December 31, 2009 \$	Year ended December 31, 2008 \$
Loss for the year	(1,498)	(7,965)
Other comprehensive loss		
Portion associated with shares sold during the year (note 7)	-	(77)
Unrealized gain (loss) on available-for-sale securities (note 7)	123	(613)
Comprehensive loss for the year	<u>(1,375)</u>	<u>(8,655)</u>

Consolidated Statements of Changes in Shareholders' Equity

	December 31, 2009 \$	December 31, 2008 \$
Share capital		
Balance – beginning of year	95,326	92,848
Issued pursuant to private placement, net of share issue costs	-	2,478
Issuance costs on share consolidation	(10)	-
Balance - end of year	<u>95,316</u>	<u>95,326</u>
Contributed surplus		
Balance – beginning of year	3,336	2,817
Fair value of warrants expired	-	519
Balance - end of year	<u>3,336</u>	<u>3,336</u>
Deficit		
Balance – beginning of year	(96,182)	(88,217)
Loss for the year	(1,498)	(7,965)
Balance - end of year	<u>(97,680)</u>	<u>(96,182)</u>
Accumulated other comprehensive income (loss)		
Balance – beginning of year	(262)	428
Unrealized gain (loss) on available-for-sale securities	123	(690)
Balance - end of year	<u>(139)</u>	<u>(262)</u>
Total Shareholders' Equity	<u>833</u>	<u>2,218</u>

The accompanying notes form an integral part of these consolidated financial statements.

Brazilian Diamonds Limited

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Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)

	Year ended December 31, 2009 \$	Year ended December 31, 2008 \$
Cash flows from operating activities		
Loss for the year	(1,498)	(7,965)
Add (deduct) items not affecting cash		
Amortization	95	398
Accretion	25	15
Future income tax expense	-	192
Gain on sale of investments	-	(98)
Gain on sale of assets	(180)	(71)
Gain on sale of mineral properties	(210)	-
Write-down of intangible assets	238	1,583
Write-down of mineral properties	121	2,271
Write-down of property, plant and equipment	24	243
Unrealized gain on Hidefield options	-	(19)
Changes in non-cash working capital related to operations		
Accounts receivable, prepaids and deposits	62	36
Due from related parties	8	6
Accounts payable and accrued liabilities	(52)	(27)
Due to related parties	420	318
Deposits	392	-
	<u>(555)</u>	<u>(3,118)</u>
Cash flows from financing activities		
Issue of shares for private placement	-	2,596
Share issue costs	(10)	(118)
	<u>(10)</u>	<u>2,478</u>
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	518	82
Proceeds from exercise of Hidefield options and shares	-	185
Proceeds from sale of mineral properties	53	-
	<u>571</u>	<u>267</u>
Increase (decrease) in cash and cash equivalents	6	(373)
Cash and cash equivalents - Beginning of year	<u>83</u>	<u>456</u>
Cash and cash equivalents - End of year	<u>89</u>	<u>83</u>
Supplemental cash flow information (note 17)		

The accompanying notes form an integral part of these consolidated financial statements.

Brazilian Diamonds Limited

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(figures in tables are expressed in thousands of Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is engaged in the exploration for and development of mineral resources. The properties of the Company are without a known body of commercial ore, the exploration programs undertaken and proposed constitute an exploratory search, and there is no assurance that the Company will be successful in its search. The Company has not earned any revenue to date from its current operations and is therefore considered to be in the development stage. The business of exploring for minerals and mining involves a high degree of risk, and few properties that are explored are ultimately developed into producing mines. Significant expenses may be required to establish ore reserves, to develop recovery processes, and to construct mining and processing facilities at a particular site. It is not possible to ensure that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

During the year ended December 31, 2009, shareholders approved the consolidation of the Company's common shares on a ten-old-shares-for one-new basis. All references to number of common shares and per common share amounts have been retroactively restated to reflect this common share consolidation.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has adopted the disclosure requirements of The Canadian Institute of Chartered Accountants ("CICA") Section 1400 - General Standards of Financial Statement Presentation. This standard requires that management make an assessment of a company's ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon a company's ability to continue as a going concern, such as those set out below, those uncertainties should be disclosed.

During the year ended December 31, 2009, the Company incurred a net loss of \$1,498,000 (December 31, 2008 – \$7,965,000) and at December 31, 2009 has a net working capital deficiency of \$195,000 (December 31, 2008 – \$329,000). To manage the liquidity requirements, the Company is reviewing its plans for future activities which may require the further sale or disposal of assets, the relinquishment of exploration licenses, suspension or termination of exploration activities and/or search for joint venture partners as part of a rationalization plan to meet the challenges posed by this difficult environment.

The Company's ability to continue as a going concern is dependent upon its ability to fund its ongoing operating costs and exploration and development of mineral properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

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2. RECENT ACCOUNTING PRONOUNCEMENTS

Business Combinations; Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements*; and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581 – *Business Combinations* and section 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of these sections.

International Financial Reporting Standards (“IFRS”)

In 2006, the CICA published a strategic plan that outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the CICA announced that 2011 is the year during which publicly-listed companies are to use IFRS. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company is assessing the effects of adopting IFRS for 2010, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: BSG Investments Inc. (“BSGII”) and its subsidiaries, Canastra Investments Holdings Inc. (“Canastra”), Mineração do Sul Ltda. (“Mineração”), and Parimá Mineração Ltda. (“Parimá”); Game Creek Company Ltd. (“Game Creek”) and its subsidiaries, principally Samsul Mineração Ltda. (“Samsul”) and Cobre Sul Mineração Ltda. (“Cobre Sul”). Inter-company balances and transactions are eliminated on consolidation. The Company’s corporate office is located in Vancouver, British Columbia, Canada. Canastra, Mineração, Parimá and Samsul are located in Brazil. BSGII and Game Creek are British Virgin Island incorporated companies.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates include assessment of potential impairments of the carrying value of mineral properties, the determination of asset retirement obligations and the determination of stock-based compensation. Actual results could differ from those reported.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short term investments with maturities of three months or less from date of acquisition. Cash and cash equivalents include cash balances held with major Canadian and Brazilian banks and short-term deposits with these banks. All cash equivalents are highly liquid, with low credit risk.

Investments

The Company's investments in equity instruments are designated as available-for-sale measured at fair value pursuant to Section 3855 of the CICA Handbook.

Mineral properties

During the year ended December 31, 2008, the Company changed its accounting policy relating to mineral property exploration expenditures and it now expenses exploration expenditures when incurred.

When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to prior agreements and non-compliance with regulatory requirements.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are carried at cost less amounts written off. Amortization is provided for over the estimated lives of the related assets based on annual rates as follows:

Heavy equipment	20%
Vehicles	20 - 40%
Buildings	4%
Plant	10%
Furniture and fixtures	10%
Machine and equipment	10 - 20%
Computers	20%
Computer software	20%
Leasehold improvements	straight-line over the term of the lease

Intangible assets

Intangible assets which consist of data sets related to the Company's Brazilian exploration activities (note 10), are recorded at cost and are expensed to operations. Management assesses the recoverability of intangible assets annually and at such times as events or circumstances indicate that the carrying amounts may not be recoverable. In the event that an impairment is identified, the carrying value of the intangible asset is written down to its estimated fair value.

Asset retirement obligations

The fair value of a liability for an asset retirement obligation, such as site closure and reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is required to record the estimated present value of future cash flows associated with site closure and reclamation as a liability and increase the carrying value of the related assets for that amount. Subsequently, these asset retirement costs are expensed to operations. At the end of each period, the liability is revised to reflect the passage of time and changes in the estimated future cash flows underlying any initial fair value measurements.

Financial instruments

The Company classifies its financial instruments as either held for trading, available-for-sale, loans and receivables, held-to-maturity or other financial liabilities.

Held for trading financial assets and liabilities are recorded at fair values as determined by active market prices and valuation models, as appropriate. Valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses readily observable market inputs where available or, where not available, inputs generated by the Company. Changes in fair value of held for trading financial instruments are recorded in operations.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Available-for-sale financial assets are recorded at fair value as determined by active market prices. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income (loss). If a decline in fair value is deemed to be other than temporary, the unrealized loss is recognized in operations.

Loans and receivables, held-to-maturity investments and other financial liabilities are recorded initially at fair value and subsequently at amortized cost using the effective interest rate method.

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

As of December 31, 2009, the carrying amount of the Company's financial assets and liabilities approximates the fair value.

Financial Instruments - disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair values of cash and cash equivalents and investments are based on level 1 inputs of the fair value hierarchy.

Stock-based compensation

The Company uses the fair value method of accounting as determined by the Black-Scholes option pricing model for all stock-based compensation, including options granted under the Company's incentive stock option plan. Compensation expense for options granted is determined based on the estimated fair values of the stock options at the time of grant, the cost of which is recognized over the vesting periods of the respective options. Stock-based compensation expense is recorded as a charge to operations with a corresponding credit to contributed surplus. Consideration paid for shares on the exercise of options is credited to share capital.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year.

For the diluted share computations, assumptions are made regarding potential common shares outstanding during the period. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the period or at the time of issuance if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the period thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Exchange gains and losses arising on currency translation are credited or charged to earnings.

4. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents, receivables and investment balances.

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4. CAPITAL MANAGEMENT (continued)

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company is uncertain as to whether its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating period and, accordingly, management is reviewing the timing and scope of current exploration and development plans and is also pursuing other financing alternatives to fund the Company's operations.

5. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company's operations, however, are located in Brazil where many exploration and administrative expenses are incurred in the local currency, the Brazilian Real. The Company's ability to advance funds to Brazil (for capital investment or operations) is subject to changes in the valuation of the Real as well as rules and regulations of the Brazilian government. Fluctuations in the value of the Real may have an adverse effect on the operations and operating costs of the Company.

Interest rate and credit risk

The Company has neither significant cash balances nor credit risk arising from operations.

Accounts and other receivables consist of goods and services tax due from the Federal Government of Canada, amounts due from related parties with normal trade terms, and funds advanced for exploration. Management believes that the credit risk concentration with respect to receivables is remote.

The Company's exposure to interest rate risk arises from the interest rate impact on the fluctuations in the Brazilian CDB bank rate and Canadian prime rate applicable to its loans payable to related parties.

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5. MANAGEMENT OF FINANCIAL RISK (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has an insignificant cash balance and significant interest-bearing debt to related parties. At December 31, 2009, the Company has a net working capital deficiency of \$195,000 (December 31, 2008 – \$329,000). To mitigate the liquidity risk, the Company is reviewing its plans for future activities.

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market prices of diamonds. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

6. ASSETS HELD FOR SALE

During the year ended December 31, 2009, the Company announced the signing of formal contracts for the sale of the Company's wholly owned subsidiary, Cobre Sul, through which the Company holds the Santo Antonio do Bonito alluvial diamond project to third parties for US\$750,000. As at December 31, 2009, total receipts of \$765,000 (US\$695,000) which comprised of cash payment of \$392,000 (US\$345,000) and a pink diamond valued at \$373,000 (US\$350,000 – classified as "Other assets") were received as deposits on the sale of the subsidiary. The remaining cash payment of US\$55,000 was received subsequent to the year end and the shares of Cobre Sul were transferred to the purchaser.

In accordance with the plan for the sale of Cobre Sul that existed at December 31, 2009, the assets held by Cobre Sul were reclassified to assets held for sale.

7. INVESTMENTS

	December 31, 2009			
	Number of Shares	Carrying Value	Fair Value	% Holding
Minera IRL Ltd. (formerly, Hidefield Gold plc) (note a)	181,547	\$ 331	\$ 191	0.21%

	December 31, 2008			
	Number of Shares	Carrying Value	Fair Value	% Holding
Hidefield Gold plc	7,625,000	\$ 331	\$ 68	2.74%

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7. INVESTMENTS (continued)

- a) During the year ended December 31, 2009, Hidefield Gold plc (“Hidefield”) was merged with Minera IRL Limited (“Minera”) at an exchange ratio of 1 Minera share for every 42 Hidefield shares. On December 22, 2009, the Company received 181,547 Minera shares.
- b) During the year ended December 31, 2009, the Company recognized an unrealized gain of \$123,000 (2008 – unrealized loss of \$613,000) on marketable securities designated as available-for-sale in other comprehensive income (loss).
- c) On February 8, 2008, the Company sold 2,000,000 Hidefield shares at a price of 4.75 pence per share for a total of \$185,000 to Hamilton Capital Partners Limited and recorded a gain of \$98,000.
- d) On January 25, 2008, the Company’s 7,125,000 Hidefield options expired and the \$19,000 unrealized fair value of the Hidefield options was written off.

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	Disposition	Write-down for sale (note 6)	Reclassified as assets held	December 31, 2009 Net
	\$	\$	\$	\$	\$	\$
Heavy equipment	253	(243)	(5)	-	-	5
Vehicles	231	(135)	(95)	-	-	1
Buildings	438	-	(284)	(24)	(130)	-
Furniture and fixtures	213	(212)	(1)	-	-	-
Machine and equipment	651	(592)	(15)	-	-	44
Plant	289	(233)	-	-	-	56
Computers	165	(143)	(22)	-	-	-
Computers software	39	(39)	-	-	-	-
Land	156	-	-	-	-	156
Leasehold improvements	27	(27)	-	-	-	-
	2,462	(1,624)	(422)	(24)	(130)	262

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8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Cost	Accumulated Amortization	Write-down	December 31, 2008 Net
	\$	\$	\$	\$
Heavy equipment	253	(232)	-	21
Vehicles	231	(176)	-	55
Buildings	550	(55)	(112)	383
Furniture and fixtures	251	(168)	(38)	45
Machine and equipment	686	(581)	(35)	70
Plant	323	(211)	(34)	78
Computers	176	(150)	(11)	15
Computers software	52	(39)	(13)	-
Land	156	-	-	156
Leasehold improvements	27	(27)	-	-
	2,705	(1,639)	(243)	823

The Company has assessed the recoverability of its property, plant and equipment and has recorded an asset impairment of \$24,000 (2008 - \$243,000).

9. MINERAL PROPERTIES

	December 31, 2008 \$	Write-down \$	Reclassified as assets held for sale (note 6) \$	December 31, 2009 \$
Coromandel (a)	792	(121)	(671)	-
Serra da Canastra (c)	700	-	-	700
Total	1,492	(121)	(671)	700
	December 31, 2007 \$	Write-down \$	December 31, 2008 \$	
Coromandel (a)	1,585	(793)	792	
Patos de Minas (b)	312	(312)	-	
Serra da Canastra (c)	1,400	(700)	700	
Salvador 1 (d)	466	(466)	-	
Total	3,763	(2,271)	1,492	

Brazilian Diamonds Limited

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Notes to Consolidated Financial Statements

December 31, 2009 and 2008

(figures in tables are expressed in thousands of Canadian dollars)

9. MINERAL PROPERTIES (continued)

Diamond properties

During the year ended December 31, 2009, the Company focused on reorganizing activities, termination of some of its mineral claims and on care and maintenance of its properties.

a) Coromandel Region

i) Santo Antônio do Bonito River

The Company, through its wholly owned subsidiary, Cobre Sul, owns various mineral claims covering both the headwaters and the main drainage valley of the river.

In 2004, thirteen adjacent licenses covering the headwaters and adjacent plateau areas were acquired from Ingris Mineração Ltda (“INCRIS”) for US\$8,000. Under the agreement, INCRIS retained a 1% gross royalty over any kimberlites developed as mines on the licenses acquired.

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito River project and determined that no impairment was required. The Company has kept its mineral licenses in good standing. To conserve cash reserves, the Santo Antonio do Bonito River project has been placed on care and maintenance.

ii) Santo Antônio do Bonito Alluvial Diamond Mining Joint Venture

In 2004, the Company signed an agreement with Companhia Mineradora de Minas Gerais (“CODEMIG”) and Mineração Rio Novo Ltda (“MRN”), a wholly owned subsidiary of Andrade Gutierrez SA, to form a joint venture to investigate the potential for commercial exploitation of the alluvial diamond deposits within the Santo Antônio do Bonito Valley. In accordance with the terms of the agreement CODEMIG has spent \$1,000,000 over the last three years completing a definitive feasibility study prior to a decision to move to commercial mining operations.

In compensation for its investment in this feasibility work, CODEMIG will be entitled to a 3.5% over-riding royalty from any future alluvial mining operations undertaken by the joint venture partners. Following successful completion of the evaluation programme, a new joint venture company is expected to be established in which MRN will hold a 75% interest and the Company a 25% interest.

The Company’s joint venture partners have made a decision to defer the next phase of studies with regards to developing a large scale, dredge based mining operation on the Santo Antonio do Bonito alluvials project.

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito alluvial mining project and has recorded an impairment of \$121,000 (2008 - \$793,000). The fair value of the mineral properties of Cobre Sul were written down to reflect the agreed sale of these assets subsequent to year end (note 6).

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(figures in tables are expressed in thousands of Canadian dollars)

9. MINERAL PROPERTIES (continued)

b) Patos de Minas Region

In 2003, the Company acquired Parimá Mineração Ltda. (“Parima”) for \$312,000 (US\$225,000) from Canabrava Diamond Corporation (“Canabrava”). Through the acquisition of Parima, the Company took possession of office and laboratory facilities, kimberlite geophysical and sampling databases and exploration licenses over properties in proximity to the Company’s license portfolio in the Santo Antônio do Bonito and Abaeté Valleys. Canabrava is entitled to a 2% royalty on any gross revenue generated by the production and sale of diamonds from any future mine developed within the claims acquired, plus a 1% royalty on an area over and surrounding the claims acquired.

During the year ended December 31, 2007, the land, building and assets in Parima were transferred to Samsul for \$285,000 Brazilian Reals (“R”). The land is now registered in Samsul with the Brazilian land registry. For the year ended December 31, 2008, all mineral licenses were transferred from Parima to Samsul for \$Nil value.

As at December 31, 2009, the Company had assessed the recoverability of its project in Parima and had recorded an impairment of \$Nil (2008 - \$312,000). The Regis and Tucano mineral licenses in the Patos de Minas region were not renewed subsequent to the year end.

c) Serra da Canastra Region

In 2002, the Company acquired all of the issued and outstanding shares of De Beers Brasil Ltda.’s (“De Beers”), wholly owned Brazilian subsidiary, Mineração do Sul Ltda. (“Mineração”). Mineração’s primary assets are the Canastra 1 kimberlite pipe and mineral licenses within the Serra da Canastra Region. The issue of permits to commence trial mining of the Canastra 1 pipe has been delayed until a dispute surrounding a possible extension of the nearby Serra da Canastra National Park boundary is resolved. New legislation was submitted to the Brazilian Camara of Deputies (Lower House) on June 28, 2007 which proposed the creation of a new park boundary but excluded the Canastra 1 and nearby Canastra 1 trend. This new legislation was approved on October 29, 2008 and the bill is in the Senado (Upper House) for final approval. Subsequent to the year ended December 31, 2009, there were some modifications to the bill and it has returned to the Lower House for re-approval.

The Company has assessed the recoverability of its project in the Serra da Canastra region and has recorded an asset impairment of \$Nil (2008 - \$700,000). All Canastra mineral licenses have been renewed and maintained in good standing while the Company is waiting for the trial mining permits. To conserve cash reserves, the Serra da Canastra region projects has been placed on care and maintenance.

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9. MINERAL PROPERTIES (continued)

d) Salvador 1

On September 13, 2006, the Company, through its wholly owned subsidiary, Game Creek Company Ltd. ("Game Creek"), completed the acquisition of the Chapada Diamantina Kimberlite Project data sets and mineral rights in the State of Bahia from De Beers Brazil Ltda. Seventeen licenses totalling 28,087.45 Ha cover the entire Salvador Kimberlite Cluster (3 kimberlite intrusives) and two bodies within the Conquista Cluster. The terms of the acquisition include:

- i. Cash payment on closing of \$165,975 (paid);
- ii. A second payment of \$150,000 either in cash or the equivalent value in the common shares of the Company 180 days after closing (paid in cash);
- iii. A third payment of \$150,000 either in cash or the equivalent value in the common shares of the Company 360 days after closing (paid in cash);
- iv. The issue to De Beers of 1 million common shares of the Company in the event of the discovery of a kimberlite pipe which after bulk testing is confirmed to contain more than 200 carats of diamonds;

De Beers will retain the right to re-acquire an interest of up to 40% in any kimberlite discovery which is confirmed to contain more than 200 carats of diamonds. To exercise this right, De Beers will have to pay an amount calculated as 300% of the Company's exploration expenditures to that date on the kimberlite body.

At December 31, 2009, the Company had assessed the recoverability of its Salvador 1 project and had recorded an asset impairment of \$Nil (2008 - \$466,000). The Company has closed down its testing programs and will not renew the license at Salvador 1 subsequent to the year end.

10. INTANGIBLE ASSETS

Data Sets

	December 31, 2008 \$	Amortization \$	Write-down \$	December 31, 2009 \$
Data Sets	264	(26)	(238)	-

	December 31, 2007 \$	Amortization \$	Write-down \$	December 31, 2008 \$
Data Sets	2,115	(268)	(1,583)	264

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10. INTANGIBLE ASSETS (continued)

In 2004, the Company, through its wholly owned subsidiary, Game Creek, entered into three separate agreements with De Beers, to purchase three separate data sets for the Tres Marias - Abaeté, Serra da Canastra and Santo Antonio exploration regions. Pursuant to the purchase agreements, the Company paid a total of \$2,318,000.

On May 25, 2005, the Company, through its wholly owned subsidiary, Game Creek, entered into an agreement with De Beers to purchase a data set for the Maravilha Region of the State of Minas Gerais, Brazil. Pursuant to the agreement, the Company paid a total of \$299,750 for the purchase of the data set.

At December 31, 2009, the Company has assessed the recoverability of its intangible assets and has recorded an asset impairment of \$238,000 (2008 - \$1,583,000).

11. CAPITAL STOCK

a) Authorized

Unlimited common shares without par value

	Number of shares	Capital Stock \$	Contributed Surplus \$
Balance - December 31, 2007	16,841,372	92,848	2,817
Private placement (ii)	2,595,700	2,596	-
Less: Share issue costs	-	(118)	-
Fair value of warrants expired (note 10(b))	-	-	519
Balance - December 31, 2008	19,437,072	95,326	3,336
Less: Share consolidation costs	-	(10)	-
Balance - December 31, 2009	19,437,072	95,316	3,336

- i. Following shareholder approval at the Company's Annual and Special Meeting held on August 31, 2009, the Company completed the consolidation of its common shares on the basis of one "new" common share for ten "old" common shares on September 28, 2009. All share and per share amounts have been retroactively restated to reflect the share consolidation.
- ii. On March 26, 2008, the Company issued 2,595,700 common shares at a price of \$1.00 per share for net proceeds of \$2,478,000 (25,957,000 pre-stock consolidation shares at a price of \$0.10 per share).

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11. CAPITAL STOCK (continued)

b) Share purchase warrants

A summary of the changes in the Company's share purchase warrants for the year ended December 31, 2009 and 2008 is set out below:

	Warrants outstanding	Weighted average exercise price \$	Value Assigned \$
Balance - December 31, 2007	250,000	17.00	519
Expired during the year	(250,000)	17.00	(519)
Balance - December 31, 2008 and 2009	-	-	-

c) Incentive stock options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

A summary of the changes in the Company's stock options for the year ended is set out below:

	December 31, 2009		December 31, 2008	
	Number of options outstanding	Weighted average exercise price per share \$	Number of options outstanding	Weighted average exercise price per share \$
Opening balance	695,000	3.90	1,095,000	3.70
Expired	(295,000)	4.52	(400,000)	3.40
Ending balance	400,000	3.37	695,000	3.90

The following table summarizes information about stock options outstanding and exercisable at December 31, 2009:

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11. CAPITAL STOCK (continued)

c) Incentive stock options (continued)

Number of Stock Options	Exercise Price \$	Expiry Date
217,500	4.10	April 5, 2011
172,500	2.50	July 12, 2012
10,000	2.50	October 12, 2012
400,000		

Stock-based compensation

For the year ended December 31, 2009, the Company had \$Nil stock-based compensation (2008 - \$Nil).

d) Accumulated other comprehensive income (loss)

	As at December 31, 2009 \$	As at December 31, 2008 \$
Accumulated Other Comprehensive Income – beginning of year	(262)	428
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities	123	(690)
Accumulated Other Comprehensive Loss - end of year	<u>(139)</u>	<u>(262)</u>

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12. SEGMENTED INFORMATION

The Company operates in one operating segment being the exploration and development of mineral properties located in Brazil. The Company's head office is located in Canada. All of the Company's capital assets are located in Brazil.

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009 and 2008, the Company entered into the following transactions with related parties:

	2009	2008
HRG Management Ltd. – Kenneth Judge (director), Stephen L. Fabian, (director), Kerry Beamish (CFO) (note (a))		
Paid or accrued contractual service costs (note (a))	\$ 130,000	\$ 245,000
Deposits made (note (c))	62,000	62,000
Hamilton Capital Partners Limited (“HCPL”) – Kenneth Judge (director)		
Paid or accrued consulting fees and office rent	161,000	170,000
Advance and interest payable (note (i))	56,000	-
Sale of Hidefield shares	-	185,000
Massif Limited (“Massif”) – Stephen L. Fabian		
Paid or accrued management fees - (note (d))	138,000	126,000
Lang Michener – David Cowan (partner)		
Paid or accrued legal fees - (note (e))	12,000	15,000
SAFM Mineração Inc. - Stephen L. Fabian (director)		
Related party demand loan and interest payable (note (g))	-	107,000
Itapiruba Internacional Ltda. - subsidiary of HCPL		
Related party demand loan and interest payable (note (h))	150,000	32,000
Hidefield Gold plc (“Hidefield”) – Kenneth Judge (director), Francis Johnstone (director)		
Royalty revenues (note (j))	53,000	-
Gain on sale of Cata Preta property (note (j))	210,000	-
Related party receivable (note (j))	157,000	-

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(figures in tables are expressed in thousands of Canadian dollars)

13. RELATED PARTY TRANSACTIONS (continued)

- a) The Company pays a monthly corporate administration fee of approximately \$13,400 (January 2009 - \$18,400) before any reimbursements (2008 - \$18,400) that includes office rent, administration, accounting, corporate secretarial, chief financial officer, investor relations and other related services to HRG Management Ltd. ("HRG"). HRG is a management company that provides shared office space and staff to certain other public companies on a cost recovery basis. The Company share directors and officers in common with HRG. The agreement can be terminated by either party with ninety days written notice. Kenneth Judge and Stephen L. Fabian are both directors of HRG. Kerry Beamish is the CFO of HRG. During the year ended December 31, 2009, the Company paid or accrued contractual services of \$130,000 (2008 - \$245,000) to HRG after reimbursements of \$25,000 for investor relations and \$11,000 for corporate administrative services.
- b) At December 31, 2009, HRG owed the Company \$3,000 (2008 - \$1,000) with normal trade terms.
- c) At December 31, 2009, \$62,000 (2008 - \$62,000) is included in accounts receivable, prepaids and deposits to HRG for fixed assets and services.
- d) The Company paid or accrued management fees of \$138,000 (2008 - \$126,000) to Massif Limited ("Massif"), a company in which Stephen L. Fabian is interested.
- e) The Company paid or accrued professional fees of \$12,000 (2008 - \$15,000) to a law firm in which David Cowan, director is a partner.
- f) The Company owed \$66,000 (2008 - \$22,000) to directors of the Company, \$195,000 to Massif (2008 - \$56,000), \$271,000 to HCPL (2008 - \$98,000) and \$Nil (2008 - \$3,000) to HRG with normal trade terms.
- g) The Company owed \$Nil (2008 - \$107,000) to SAFM Mineração Inc., a company associated with Stephen Fabian, with accrued interest based on the monthly interest rate of the standard Brazilian CDB bank rate for Banco Itau payable on demand.
- h) The Company owed \$150,000 (2008 - \$32,000) to Itapiruba Internacional Ltda., a company associated with Kenneth Judge, with accrued interest based on the monthly interest rate of the standard Brazilian CDB bank rate for Banco Itau payable on demand.
- i) The Company owed \$56,000 (2008 - \$Nil) to HCPL with accrued interest based on prime rate plus 1% and with no repayment terms.

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Notes to Consolidated Financial Statements

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(figures in tables are expressed in thousands of Canadian dollars)

13. RELATED PARTY TRANSACTIONS (continued)

- j) On November 4, 2005, the Company entered into an agreement with Hidefield pursuant to which the Company sold its 50% interest in the Cata Preta Joint Venture for consideration comprising 2,500,000 new common shares of Hidefield. The agreement also granted the Company a 5% net profits interest royalty and 20% of the net proceeds received by Hidefield through future joint ventures, leases, or outright sale of any of the mineral licenses. The Company had previously written down the carrying value of the Cata Preta property to \$Nil. During the year ended December 31, 2009, the Cata Preta property was sold and the Company received a 5% net profits interest royalty of \$53,000 (US\$50,000). The Company also received 20% of the net proceeds on the sale of the Cata Preta property and recorded a gain of \$210,000. At December 31, 2009, there was a receivable due from Hidefield of \$157,000 (US\$150,000).
- k) During the year ended December 31, 2008, the Company received proceeds of \$185,000 on the sale of Hidefield Gold plc shares at 4.75 pence from HCPL.

These transactions were in the normal course of operations and are measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

14. COMMITMENTS AND CONTINGENCIES

a) Commitments

At December 31, 2009, the Company has the following commitments:

	2010	2011	Total
Photocopier lease	\$ 9	\$ 1	\$ 10

b) Contingencies

In the course of its business activities the Company has from time to time, been the subject of civil claims by third parties, including former employees that could give rise to a liability to pay compensation or damages. In addition, the Company may receive notices from regulatory and other governmental agencies responsible for the administration of regulations impacting on the Company's business affairs, in relation to the imposition or intended imposition of penalties, assessments and other orders that could potentially have an adverse affect or negatively impact on the Company's business and financial condition. Based upon historic experience with the management of such claims, assessment and regulatory actions, the Company does not anticipate that the outcome of those claims, assessments and regulatory actions will have a materially adverse effect on the Companies business or financial condition.

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(figures in tables are expressed in thousands of Canadian dollars)

15. ASSET RETIREMENT OBLIGATION

	Year ended December 31, 2009 \$	Year ended December 31, 2008 \$
Asset retirement obligation – beginning of year	100	85
Liabilities incurred	-	-
Accretion	25	15
Asset retirement obligation – end of year	125	100

Site closure and reclamation costs are estimated to total \$148,000 (2008 - \$131,000). At December 31, 2009 an amount of \$125,000 (2008 - \$100,000) has been recorded as an asset retirement obligation representing the estimated fair value of the asset retirement obligation at balance sheet date. The obligation was calculated using a discount rate of 4.25% and an inflation rate of 4.5%.

16. INCOME TAXES

a) A reconciliation of income taxes at statutory rates is as follows:

	2009	2008
Basic rate	30%	31%
Loss for the year before income taxes	\$ (1,498)	\$ (7,773)
Income tax recovery at basic rate	(449)	(2,410)
Non-deductible items	85	-
Other differences	-	1,642
Unrecognized benefit of non-capital losses	364	960
Total income taxes	\$ -	\$ 192

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December 31, 2009 and 2008

(figures in tables are expressed in thousands of Canadian dollars)

16. INCOME TAXES (continued)

b) Significant components of the Company's future income tax assets are as follows:

Future income tax assets:

	2009	2008
	\$	\$
Capital losses	178	52
Tax losses carried forward	2,622	2,806
Share issuance cost	42	169
Asset retirement obligation	(31)	27
Intangible assets	654	427
Mineral properties	62	613
Property, plant and equipment	406	66
Exploration costs	5,258	5,495
Investments	35	—
	9,226	9,655
Less: valuation allowances	(9,226)	(9,655)
Net future income tax	—	—

Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these consolidated financial statements and have been offset by a valuation allowance due to the uncertainty as to their realizability.

c) As at December 31, 2009, the Company has available non-capital losses for Canadian income tax purposes of approximately \$10,485,000 (2008 - \$10,393,000) which may be carried forward and applied against future taxable income when earned.

These losses expire as follows:

Year of Expiry	Amount
	\$
2029	893
2028	1,209
2027	1,452
2026	1,678
2015	2,840
2014	1,701
2010	712
Total	10,485

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17. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
Cash paid during the year for interest	\$ 6	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions for the year ended December 31, 2009 included:

- The Company reclassified property, plant and equipment of \$130,000 and mineral properties of \$671,000 to assets held for sale.
- The Company received a diamond with a value of \$373,000 as partial deposits on the sale of its subsidiary.

There were no significant non-cash transactions for the year ended December 31, 2008.



**MANAGEMENT DISCUSSION AND
ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2009
(As of April 29, 2010)**

Introduction

The following discussion of performance and financial condition should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2009. The Company's financial statements are prepared in accordance with Canadian GAAP. The accounting policies followed by the Company are set out in note 3 to the audited consolidated financial statements. The Company's reporting currency is Canadian dollars. The date of this Management's Discussion and Analysis is April 29, 2010.

Description of Business

Brazilian Diamonds Limited (the "Company") is a development stage resource company engaged in the acquisition, exploration and development of kimberlite and alluvial diamond properties in Brazil. The Company holds 16,104 hectares of alluvial and kimberlite exploration properties in the Paranaíba and Santo Antônio do Bonito River Basins and the Patos de Minas region as well as over 51,328 hectares of prospective exploration properties in the Serra da Canastra Kimberlite Province including the advanced stage diamondiferous Canastra 1 kimberlite pipe.

The Company's head office is located in Belo Horizonte, Brazil and corporate office is located in Vancouver British Columbia, Canada.

The Company is a reporting issuer in Ontario, British Columbia and Alberta, Canada and its common shares trade on the TSX Venture Exchange under the symbol **BZD**.

Corporate Developments

On November 4, 2005, the Company entered into an agreement with Hidefield Gold plc ("Hidefield") pursuant to which the Company sold its 50% interest in the Cata Preta Joint Venture for consideration comprising 2,500,000 new common shares of Hidefield. The agreement also granted the Company a 5% net profits interest royalty and 20% of the net proceeds received by Hidefield through future joint ventures, leases, or outright sale of any of the mineral licenses. The Company had previously written down the carrying value of the Cata Preta property to \$Nil. During the year ended December 31, 2009, the Cata Preta property was sold and the Company received a 5% net profits interest royalty of \$53,000 (\$50,000USD). The Company also received 20% of the net proceeds on the sale of the Cata Preta property and recorded a gain of \$210,000. At December 31, 2009, there was a receivable due from Hidefield of \$157,000 (\$150,000USD).

During the year ended December 31, 2009, the Company received a pink diamond valued at \$373,000 (\$350,000 USD) as deposit from third parties on the sale of the Company's wholly owned subsidiary, Cobre Sul Mineracao Ltda. The Company is in the process of selling the diamond.

On April 22, 2009, the Company announced the signing of formal contracts for the sale of the Company's wholly owned subsidiary, Cobre Sul Mineracao Ltda., through which the Company holds the Santo Antonio do Bonito alluvial diamond project to third parties for \$968,000 (\$750,000 USD). As at December 31, 2009, a balance of \$58,000 (\$55,000 USD) was outstanding. The outstanding balance of \$58,000 was paid in full on February 26, 2010. In March 2010, the shares of Cobre Sul Mineracao Ltda. were transferred to the purchaser.

The issue of permits to commence trial mining of the Canastra 1 pipe has been delayed until a dispute surrounding a possible extension of the nearby Serra da Canastra National Park boundary is resolved. New legislation was submitted to the Brazilian Camara of Deputies (Lower House) in June 28, 2007 which proposed the creation of a new park boundary but excluded the Canastra 1 and nearby Canastra 1 trend. This new legislation was approved on October 29, 2008 and the bill is in the Senate (Upper House) for final approval. It is difficult to predict the timing of the Senate vote.

Corporate Developments (continued)

The Board is considering its options on retaining or disposing of other property assets.

Following shareholder approval at the Company's Annual and Special Meeting held on August 31, 2009, the Company completed the consolidation of its common shares on the basis of one "new" common share for ten "old" common shares on September 28, 2009. Effective September 30, 2009, the common shares of the Company commenced trading on the TSX Venture Exchange on a consolidated basis under the new stock symbol "BZD".

All outstanding options of the Company were adjusted accordingly reflecting the Company's consolidation of its common shares on the basis of one "new" common share for ten "old" common shares on September 28, 2009.

Following shareholder approval at the Company's Annual and Special Meeting held on August 31, 2009, the Company's admission to trading on the Alternative Investment Market of the London Stock Exchange ("AIM") was cancelled effective September 8, 2009.

On June 22, 2009 at the close of market, the Company's shares were delisted from the TSX. The Company's shares commenced trading on the TSX Venture Exchange at the opening of the market on June 23, 2009 under the trading symbol "BDY".

On April 22, 2009, the Company announced the signing of formal contracts for the sale of the Patos de Minas laboratory and associated plant and equipment to third parties for \$452,000 (\$350,000 USD) payable in cash. A non-refundable deposit of \$14,000 (\$11,000 USD) was received on March 24, 2009. On May 5, 2009, the Company received a deposit of \$197,000 (\$168,000 USD). The balance of payment was received in June 2009.

Discussion of Operations

Current Year Activity

During the year ended December 31, 2009, the Company focused on reorganizing activities and on care and maintenance of its properties.

Salvador 1 Kimberlite Testing

The Salvador 1 kimberlite is a six hectare body partly exposed beneath the sands and gravels of an old alluvial diamond mine in central Bahia State, Brazil. The testing of the Salvador 1 kimberlite has involved the excavation of a number of pits, with each pit designed to extract approximately 1,300 tonnes of kimberlite from different parts of the kimberlite pipe.

Extraction began in the last quarter of 2007 and continued through to September 2008. The kimberlite is multiphase with as many as six kimberlite rock types identified in Pit 1, therefore providing numerous challenges in evaluation process.

Processing of the kimberlite samples began in December 2007 using a processing plant consisting of a primary disaggregation rotary pan, followed by x-ray flowsort and grease table for the recovery of diamonds. The processing plant has recently been augmented with a roll crusher to better handle harder kimberlite fragments, however, sample treatment remained slower than excavation.

Quality control and quality assurance of this evaluation process was undertaken at the Company's certified ISO 17025 indicator mineral processing laboratory on Patos de Minas, where concentrates were re-examined for diamonds that may not have been recovered in processing by the on-site plant.

Discussion of Operations (continued)**Salvador 1**

By September 2008, the Company completed field operations at its pit sample evaluation of the Salvador 1 kimberlite pipe. The Company excavated three pits from 8 to 11m deep and processed the extracted kimberlite in a plant built on-site. In addition, the Company completed drill holes and conducted microdiamond tests to identify potentially higher grade zone. Kimberlite weighing 603.5 tonnes from Pit 1 yielded 12.44 carats of diamonds, demonstrating that the pipe is diamondiferous although with a low abundance in the portion tested. Preliminary results from 402 tonnes of kimberlite extracted from Pit 3 yielded 10.44 carats of diamonds. Additional kimberlite, mostly from the second and third pits has been shipped to the Company's mineral processing laboratory in Patos de Minas, Brazil for final diamond processing and quality control tests following initial processing steps on-site. All field equipment was moved to the Santo Antonio do Bonito project site in Minas Gerais State where the Company was investigating the possibility of re-starting operations.

Salvador 1 Alluvial Sand and Gravel Testing

Concurrent with the kimberlite sampling and processing at Salvador 1, a separate processing plant was used to recover diamonds from the sands and gravels overlying the Salvador 1 kimberlite. Approximately 2,300 tonnes of sands and gravels were processed through the jig plant, yielding 78.93 carats. The two largest recovered diamonds weighed 3.15 and 2.65 carats respectively. The shallow overlying alluvial sands and gravels are enriched in diamond content compared to the kimberlite, although the volumes are smaller. The confirmation of a diamondiferous kimberlite feeding the alluvial deposits of central Bahia has positive implications for further exploration within the Company's extensive land position and database for the region.

At December 31, 2009, the Company has assessed the recoverability of its Salvador 1 project and has recorded an asset impairment of \$Nil (2008 - \$466,000). The Company has closed down its testing programs and will not renew the license at Salvador 1 subsequent to the year end.

Cormandel Region**Santo Antonio do Bonito River**

In 2008, all field equipment were consolidated at the Santo Antonio do Bonito project site in Minas Gerais State, where the Company was investigating the possibility of re-starting operations.

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito River project and determined that no impairment was required as the project was written down to \$nil. The Company has kept its mineral licenses in good standing and hopes to continue work on the project in the future. To conserve cash reserves, the Santo Antonio do Bonito River project has been placed on care and maintenance.

Santo Antonio do Bonito Alluvial Diamond Mining Joint Venture

In 2008, the Company's joint venture partners made a decision to defer the next phase of studies with regards to developing a large scale, dredge based mining operation on the Santo Antonio do Bonito alluvial project.

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito alluvial mining project and has recorded an impairment of \$121,000 (2008 - \$793,000). The fair value of the mineral properties of Cobre Sul Mineração Ltda. were written down to reflect the sale proceeds subsequent to year end.

Discussion of Operations (continued)

Patos de Minas

As at December 31, 2009, the Company has assessed the recoverability of its project in Parima and has recorded an impairment of \$Nil (2008 - \$312,000). The Regis and Tucano mineral licenses in the Patos de Minas region were not renewed subsequent to the year end.

Serra da Canastra

The issue of permits to commence trial mining of the Canastra 1 pipe has been delayed until a dispute surrounding a possible extension of the nearby Serra da Canastra National Park boundary is resolved. New legislation was submitted to the Brazilian Camara of Deputies (Lower House) in June 28, 2007 which proposed the creation of a new park boundary but excluded the Canastra 1 and nearby Canastra 1 trend. This new legislation was approved on October 29, 2008 and the bill is in the Senado (Upper House) for final approval.

The Company has assessed the recoverability of its project in the Serra da Canastra region and has recorded an asset impairment of \$Nil (2008 - \$700,000). All Canastra mineral licenses have been renewed and maintained in good standing while the Company is waiting for the trial mining permits. To conserve cash reserves, the Serra da Canastra region projects has been placed on care and maintenance. Subsequent to the year ended December 31, 2009, there were some modifications to the bill and it has returned to the Lower House for re-approval.

Outlook

The continuing uncertainties in international capital markets has had a demonstrable and negative impact on the ability of junior resource exploration companies to finance their activities. As at December 31, 2009, the Company has a net working capital deficiency. To manage the liquidity requirements, the Company is therefore reviewing its plans for future activities which may require the further sale or disposal of assets, the relinquishment of exploration licenses, suspension or termination of exploration activities and/or search for joint venture partners as part of a rationalisation plan to meet the challenges posed by this difficult environment.

To conserve its cash reserves, the Company and has put most of the projects on care and maintenance and has terminated some of its mineral licenses.

The Company remains encouraged by the publication of the government's inter-departmental deliberations over the finalization of permanent boundaries for the Serra da Canastra National Park which is located in proximity to the Canastra 1 project and the progress made with respect to the passage of this legislation. A draft bill (Projeto de Lei # 1448/2007) was submitted in June 2007 to the Brazilian Congress which excludes the Company's projects in the Serra da Canastra region from any new proposed National Park boundary. The draft bill was approved by the Camara dos Deputados (Lower House) on October 29, 2008 and has moved to the Senado (Upper House) for final approval. The Company has renewed the Canastra mineral licenses and is maintaining them in good standing while waiting for the trial mining permits. To conserve cash reserves, the projects in the Serra da Canastra region have been placed on care and maintenance.

The Company has kept its mineral licenses in the Santo Antonio do Bonito River region in good standing. To conserve cash reserves, the Santo Antonio do Bonito River project has been placed on care and maintenance.

Only the Regis and Tucano mineral licenses in the Patos de Minas region have been renewed and maintained in good standing. To conserve cash reserves, the Patos de Minas projects have been placed on care and maintenance.

Historical Information

Following the acquisition of several mineral exploration databases from De Beers, the Company has access to the accumulated results of more than 30 years of exploration activity in the Canastra, Santo Antônio do Bonito, Patos de Minas regions in Minas Gerais and the Chapada Diamantina region in Bahia. Included within the Canastra data set are indicator mineral samples, microprobe chemical analyses, and 19,000 line kilometres of proprietary airborne geophysics covering the entire region. De Beers has also provided details about 35 known kimberlite occurrences and the results of ground geophysics within the Canastra region. The Chapada Diamantina data set, acquired in September 2006 from De Beers, includes 194,120 line kilometres of airborne geophysics, indicator mineral samples, microprobe analysis and mineral licenses covering the Salvador 1 kimberlite body plus five other kimberlites.

This data complements an already significant database the Company previously acquired as a result of the purchase of De Beers' Brazilian subsidiary Mineração do Sul in August 2002. That acquisition also included 40,000 hectares of mineral claims in the Canastra area and the Canastra 1 kimberlite for which licenses are being sought to commence trial mining. The licencing process has been complicated by the potential expansion of a nearby National Park. Although there is every indication that a licence will be granted to mine Canastra 1, it is not possible to accurately estimate the timetable for such a grant. While the Company continues to work with various ministries of the Brazilian federal government in an effort to hasten the process for the license grant, the Company has been concentrating the majority of its exploration activity and resources on its other prospective projects outside the Canastra Region.

The Company has assessed the recoverability of its data sets and has recorded an asset impairment of \$238,000 (2008 - \$1,583,000).

During the past five years, the Company has committed significant resources evaluating kimberlite targets in the Santo Antônio do Bonito River Basin and Patos de Minas regions and subject to the availability of financing, this is set to remain a part of the Company's activities.

Salvador 1, Bahia

In 2007, the Company collected 6 replicate samples totaling 6 tonnes from the Salvador 1 kimberlite in an attempt to confirm results from a smaller (580 kg) sample taken in 2006. In total, 111 diamonds were recovered from these new samples which together with original sample tallied 120 diamonds. Preparations began in the third quarter of 2007 for the collection of six much larger samples of approximately 650 m³ each from different parts of the Salvador 1 kimberlite in order to better assess its diamond potential. Excavation of the first pit was completed in the fourth quarter and excavation of the second and third pits were started. Results from the first of the bulk sample pits identified at least six different kimberlitic rock types or "phases".

At December 31, 2009, the Company has assessed the recoverability of its Salvador 1 project and has recorded an asset impairment of \$Nil (2008 - \$466,000). The Company has closed down its testing programs and the mineral licenses will not be renewed. To conserve cash reserves, the Salvador 1 project has been placed on care and maintenance.

Serra da Canastra, Minas Gerais

The Company is awaiting final approval before commencing the environmental licensing process for the development of the Canastra 1 kimberlite body for which mine feasibility work has already been completed and the required Mines Department approvals are already in place.

Discussions of Operations (continued)**Historical Information (continued)**

The Company has assessed the recoverability of its project in the Serra da Canastra region and has recorded an asset impairment of \$Nil (2008 - \$700,000). All Canastra mineral licenses have been renewed and maintained in good standing while the Company is waiting for the trial mining permits. To conserve cash reserves, the Serra da Canastra region projects has been placed on care and maintenance.

Coromandel – San Antonio do Bonito River

As at December 31, 2008, the Company has assessed the recoverability of its Santo Antonio do Bonito River project and determined that no impairment was required as the amounts were insignificant. The Company has kept its mineral licenses in good standing. To conserve cash reserves, the Santo Antonio do Bonito River project has been placed on care and maintenance.

Coromandel, Minas Gerais - San Antonio do Bonito Alluvial Diamond Mining Joint Venture

The Company with its Joint Venture partners assessed various alternatives for the possible development of one or more alluvial mining operations at the Santo Antônio do Bonito alluvial project. These options included large scale dredging operations on the broader river flat areas along the Santo Antônio do Bonito river as well as a smaller scale operation on what are considered to be highly prospective but narrower river terrace areas. As at September 30, 2008, the Joint Venture partners have made a decision to defer the next phase of studies. The Company sold the mineral properties in the Santo Antônio do Bonito which were contained alluvial resources and its assets to a third party subsequent to the December 31, 2008 year end.

Patos de Minas, Minas Gerais

As at December 31, 2009, the Company has assessed the recoverability of its project in Parima and has recorded an impairment of \$Nil (2008 - \$312,000). Only the Regis and Tucano mineral licenses in the Patos de Minas region have been renewed and maintained in good standing. To conserve cash reserves, the Patos de Minas projects have been placed on care and maintenance.

Financial Performance**Current Quarter**

The loss for the three months ended December 31, 2009 was \$515,000 as compared to a loss of \$4,845,000 for the same period last year. The decrease in losses over the same period last year is due mainly to the smaller write-down of intangible assets in 2009 of \$238,000 (2008 – \$1,583,000), mineral properties of \$121,000 (2008 - \$2,271,000) and property, plant and equipment of \$24,000 (2008 - \$243,000).

Exploration costs decreased \$196,000 while office costs increased \$115,000 over the same period last year.

Cash and cash equivalent balances increased by \$98,000 to \$89,000 at December 31, 2009. At December 31, 2009, the Company had a working capital deficiency \$195,000 (2008 – \$329,000).

Year-to-date

The loss for the year ended December 31, 2009 was \$1,498,000 as compared to a loss of \$7,965,000 for the same period last year. The decrease in losses over the same period last year is due mainly to the smaller write-

Financial Performance (continued)**Year-to-date (continued)**

down of intangible assets of \$238,000 (2008 - \$1,583,000), mineral properties of \$121,000 (2008 - \$2,271,000) and property, plant and equipment of \$24,000 (2008 - \$243,000).

The expenses decreased over the same period last year due mainly to a decrease in exploration costs of \$2,116,000, amortization expense of \$303,000, investor relations of \$92,000 and travel expenses of \$29,000.

Cash and cash equivalent balances increased by \$6,000 to \$89,000 at December 31, 2009. At December 31, 2009, the Company had a working capital deficiency \$195,000 (2008 - \$329,000).

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito River project and determined that no impairment was required as the amounts were insignificant. The Company has kept its mineral licenses in good standing. To conserve cash reserves, the Santo Antonio do Bonito River project has been placed on care and maintenance.

As at December 31, 2009, the Company has assessed the recoverability of its Santo Antonio do Bonito alluvial mining project and has recorded an impairment of \$121,000 (2008 - \$793,000). The fair value of the mineral properties of Cobre Sul Mineração Ltda. were written down to reflect the sale proceeds subsequent to year end.

As at December 31, 2009, the Company has assessed the recoverability of its project in Parima (Patos de Minas) and has recorded an impairment of \$Nil (2008 - \$312,000). The Regis and Tucano mineral licenses in the Patos de Minas region were not renewed subsequent to the year end.

The Company has assessed the recoverability of its project in the Serra da Canastra region and has recorded an asset impairment of \$Nil (2008 - \$700,000). All Canastra mineral licenses have been renewed and maintained in good standing while the Company is waiting for the trial mining permits. To conserve cash reserves, the Serra da Canastra region projects has been placed on care and maintenance. Subsequent to the year ended December 31, 2009, there were some modifications to the bill and it has returned to the Lower House for re-approval.

At December 31, 2009, the Company has assessed the recoverability of its Salvador 1 project and has recorded an asset impairment of \$Nil (2008 - \$466,000). The Company has closed down its testing programs and will not renew the license at Salvador 1 subsequent to the year end.

Results of Operations**Summary of Quarterly Results**

The table below present's selected financial data for the Company's eight most recently completed quarters. Amounts have been restated to conform to a change in accounting policy. See "Changes in Accounting Policies" or note 2 of the audited consolidated financial statements for the year ended December 31, 2008.

(\$000)	Dec.31, 2009	Sept. 30, 2009	June 30, 2009	Mar.31, 2009	Dec.31, 2008	Restated Sept.30, 2008	Restated June 30, 2008	Restated Mar.31, 2008
Financial results								
Net loss(income) for period	515	380	248	355	4,845	1,065	1,071	984
Comprehensive gain (loss)**	(11)	78	22	34	28	(231)	(120)	(367)
Basic and diluted loss (income) per share	0.03	0.02	0.00	0.00	0.03	0.01	0.00	0.01
Exploration costs	76	65	107	89	272	666	806	709
Balance sheet data								
Cash and short term deposits	89	(9)	84	9	83	226	1,039	701
Resource properties	700	1,492	1,492	1,492	1,492	3,763	3,763	3,763
Total assets	2,718	3,003	3,030	2,857	2,945	7,505	8,730	8,539
Shareholders' equity	833	1,363	1,671	1,897	2,218	7,035	8,337	8,064

Selected Annual Information

The following financial data has been prepared in accordance with Canadian generally accepted accounting principles in Canadian currency: Amounts have been restated to conform to a change in accounting policy. See "See Significant Accounting Policies" or note 3 of the audited consolidated financial statements for the year ended December 31, 2009.

(\$000)	Year ended December 31, 2009	Year ended December 31, 2008	Restated Year ended December 31, 2007
Financial results			
Net loss for period	1,498	7,773	3,883
Other comprehensive (gain) loss**	(123)	690	1,037
Basic and diluted loss per share	0.08	0.04	0.03
Exploration costs	337	2,453	3,029
Balance sheet data			
Cash and cash equivalents	89	83	456
Mineral properties	700	1,492	3,763
Total assets	2,718	2,945	8,835
Shareholders' equity	833	2,218	8,395

Liquidity and Capital

The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and loans from companies associated with two of the Directors of the Company. While the Company remains optimistic that it will continue to be able to utilize these sources of financing until it develops cash flow from operations, there can be no assurance, however, that the Company will be successful in its efforts. If such funds are not available or other sources of finance cannot be obtained, then the Company will attempt to curtail its activities to a level for which funding is available or can be obtained.

Most of the capital equipment for operations at Canastra 1 has already been acquired and is included as part of resource properties. The Company has minimal operating lease commitments (refer to Contractual Commitments).

Liquidity and Capital (continued)

During the year ended December 31, 2009, the Company incurred a net loss of \$1,498,000 (December 31, 2008 – \$7,965,000) and at December 31, 2009 has a net working capital deficiency of \$195,000 (December 31, 2008 –\$329,000).

The Company's ability to continue as a going concern is dependent upon its ability to fund its ongoing operating costs and exploration and development of mineral properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

Contractual Commitments

Except as outlined below, the Company has no other contractual commitments.

	<u>2010</u>		<u>2011</u>		<u>Total</u>
Photocopier leases	\$ 9	\$	1	\$	10

Off Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements.

Transactions with Related Parties

During the year ended December 31, 2009 and 2008, the Company entered into the following transactions with related parties:

	2009	2008
HRG Management Ltd. – Kenneth Judge (director), Stephen L. Fabian (director), Kerry Beamish (CFO) (note (a))		
Paid or accrued contractual service costs (note (a))	\$ 130,000	\$ 245,000
Deposits made (note (c))	62,000	62,000
Hamilton Capital Partners Limited (“HCPL”) – Kenneth Judge (director)		
Paid or accrued consulting fees and office rent	161,000	170,000
Advance and interest payable (note i))	56,000	-
Sale of Hidefield shares	-	185,000
Massif Limited (“Massif”) – Stephen L. Fabian		
Paid or accrued management fees - (note (d))	138,000	126,000
Lang Michener – David Cowan (partner)		
Paid or accrued legal fees - (note (e))	12,000	15,000
SAFM Mineração Inc. - Stephen L. Fabian (director)		
Related party demand loan and interest payable (note (g))	-	107,000
Itapiruba Internacional Ltda. - subsidiary of HCPL		
Related party demand loan and interest payable (note (h))	150,000	32,000
Hidefield Gold plc (“Hidefield”) – Kenneth Judge (director)		
Francis Johnstone (director)		
Royalty revenues (note (j))	53,000	-
Gain on sale of Cata Preta property (note (j))	210,000	-
Related party receivable (note (j))	157,000	-

- a) The Company pays a monthly corporate administration fee of approximately \$13,400 (January 2009 - \$18,400) before any reimbursements (2008 - \$18,400) that includes office rent, administration, accounting, corporate secretarial, chief financial officer, investor relations and other related services to HRG Management Ltd. (“HRG”). HRG is a management company that provides shared office space and staff to certain other public companies on a cost recovery basis. The Company share directors and officers in common with HRG. The agreement can be terminated by either party with ninety days written notice. Kenneth Judge and Stephen L. Fabian are both directors of HRG. Kerry Beamish is the CFO of HRG. During the year ended December 31, 2009, the Company paid or accrued contractual services of \$130,000 (2008 - \$245,000) to HRG after reimbursements of \$25,000 for investor relations and \$11,000 for corporate administrative services.
- b) At December 31, 2009, HRG owed the Company \$3,000 (2008 - \$1,000) with normal trade terms.
- c) At December 31, 2009, \$62,000 (2008 - \$62,000) is included in accounts receivable, prepaids and deposits to HRG for fixed assets and services.

12. RELATED PARTY TRANSACTIONS (continued)

- d) The Company paid or accrued management fees of \$138,000 (2008 - \$126,000) to Massif Limited, a company in which Stephen L. Fabian is interested.
- e) The Company paid or accrued professional fees of \$12,000 (2008 - \$15,000) to a law firm in which David Cowan, director is a partner.
- f) The Company owed \$66,000 (2008 - \$22,000) to directors of the Company, \$195,000 to Massif (2008 - \$56,000), \$271,000 to HCPL (2008 - \$98,000) and \$Nil (2008 - \$3,000) to HRG with normal trade terms.
- g) The Company owed \$Nil (2008 - \$107,000) to SAFM Mineração Inc., a company associated with Stephen Fabian, with accrued interest based on the monthly interest rate of the standard Brazilian CDB bank rate for Banco Itau payable on demand.
- h) The Company owed \$150,000 (2008 - \$32,000) to Itapiruba Internacional Ltda., a company associated with Kenneth Judge, with accrued interest based on the monthly interest rate of the standard Brazilian CDB bank rate for Banco Itau payable on demand.
- i) The Company owed \$56,000 (2008 - \$Nil) to HCPL with accrued interest based on prime rate plus 1% and with no repayment terms.
- j) On November 4, 2005, the Company entered into an agreement with Hidefield pursuant to which the Company sold its 50% interest in the Cata Preta Joint Venture for consideration comprising 2,500,000 new common shares of Hidefield. The agreement also granted the Company a 5% net profits interest royalty and 20% of the net proceeds received by Hidefield through future joint ventures, leases, or outright sale of any of the mineral licenses The Company had previously written down the carrying value of the Cata Preta property to \$Nil. During the year ended December 31, 2009, the Cata Preta property was sold and the Company received a 5% net profits interest royalty of \$53,000 (US\$50,000). The Company also received 20% of the net proceeds on the sale of the Cata Preta property and recorded a gain of \$210,000. At December 31, 2009, there was a receivable due from Hidefield of \$157,000 (US\$150,000).
- k) During the year ended December 31, 2008, the Company received proceeds of \$185,000 on the sale of Hidefield Gold plc shares at 4.75 pence from HCPL.

These transactions were in the normal course of operations and are measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

Share Capital Information

The table below presents the Company's common share data as of April 29, 2010.

	Exercise Price	Expiry date	Number of common shares
Common shares, issued and outstanding			19,437,072
Securities convertible into common shares			-
Options	\$4.10	April 5, 2011	217,500
	\$2.50	July 12, 2012	172,500
	\$2.50	October 12, 2012	10,000
			19,837,072

Critical Accounting Estimates

Critical accounting estimates upon which the Company's financial status depends are those requiring estimates of the recoverability of its capitalized mineral property expenditures and intangible assets, impairment of long-lived assets and the amount of future reclamation obligations.

Mineral Properties and Development Costs

During the year ended December 31, 2009, the Company's accounting policy relating to mineral property exploration expenditures is to expense exploration expenditures when incurred. See "Significant Accounting Policies" or note 3 of the consolidated financial statements for the year ended December 31, 2009 for a description and the effects of the change.

When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be amortized against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to prior agreements and non-compliance with regulatory requirements.

Impairment of Long-lived Assets

The Company assesses the possibility of impairment in the net carrying value of its long-lived assets when events or circumstances indicate that the carrying amounts of the net asset may not be recoverable. As outlined before, as of December 31, 2009 the Company has recorded the amount of \$145,000 (2008 - \$2,514,000) related to impairment for its mineral properties and property, plant and equipment in the extension that it is necessary to reflect the recoverable amount.

Intangible assets

Intangible assets which consist of data sets related to the Company's Brazilian exploration activities, are recorded at cost and are expensed to operations. Management assess the recoverability of intangible assets annually and at such times as events or circumstances indicate that the carrying amounts may not be

Intangible assets (continued)

recoverable. In the event that an impairment is identified, the carrying value of the intangible asset is written down to its estimated fair value.

The Company has assessed the recoverability of its intangible assets and has recorded an asset impairment of \$238,000 (2008 - \$1,583,000).

Asset Retirement Obligations

The Company used the discount and inflation rate as at December 31, 2009 to estimate the fair value of its asset retirement obligations.

Future Changes in Accounting Policies**Business Combinations; Consolidated Financial Statements and Non-Controlling Interest**

In January 2009, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements*; and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581 – *Business Combinations* and section 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections are the Canadian GAAP equivalent to IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements*.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the adoption of these sections.

International financial reporting standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training, financial information systems and additional resources to ensure a timely conversion.

International financial reporting standards (“IFRS”) (continued)

The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

Phase Description and Status**1. Preliminary Planning and Scoping**

This phase involves development of the IFRS conversion plan. The IFRS conversion plan includes consideration of the impacts of IFRS on the Company’s consolidated financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, compensation metrics, personnel and training requirements. Based on Management’s review of IFRS and current Company processes, minimal impact is expected on information systems, operations of foreign subsidiaries and compensation metrics. An initial assessment identified standards of high or medium priority to the Company, based on a number of factors. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company’s adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate.

2. Detailed Impact Assessment

This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company’s consolidated financial statements, along with quantification of impact on key line items and disclosures. The assessment to date is that the Company has not identified any differences between its existing accounting policies under Canadian GAAP to those it expects to apply in its first IFRS financial statements. The International Accounting Standards Board (“IASB”) continues to amend and add to current IFRS standards with several projects underway. The Company’s transition plan includes monitoring actual and anticipated changes to IFRS and related rules and regulations and assessing the impacts of these changes on the Company and its financial statements, including expected dates of when such impacts are effective.

3. Implementation

This phase will embed the required changes for conversion to IFRS into the underlying financial disclosure and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements.

Financial Instruments – Disclosures and Presentation

Effective August 1, 2008, the Company adopted CICA Handbook Sections 3862 (Disclosures) and Section 3863 (Presentation). These standards replace CICA 3861, Financial Instruments – Disclosure and Presentation. The increase disclosures will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures

Financial Instruments – Disclosures and Presentation (continued)

must provide information about the extent to which the entity is exposed to risk, based on information provided by the entity's key management personnel.

The Company has included the disclosures recommended by the new Handbook section in Note 3 of the consolidated financial statements.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation" ("CICA 1400"), has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. During the year ended December 31, 2009, the Company has adopted the disclosure requirements of CICA 1400. The standard requires that management make an assessment of a company's ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon a company's ability to continue as a going concern, those uncertainties should be disclosed.

Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain in Other Comprehensive Income

Effective September 30, 2008, the Company adopted EIC-172, "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain in Other Comprehensive Income" ("EIC-172"). This abstract provides guidance on whether the tax benefit from the recognition of previously unrecognized tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale assets, should be recognized in net income or in other comprehensive income. Upon adoption, EIC 172 was applied retrospectively with restatement of prior periods resulting in a reduction of \$658,000 in "opening balance adjustment – transition adjustment" in accumulated other comprehensive income in order to record the future income tax liability against deficit. Future income tax recovery in the same amount was recorded against deficit.

Risk

There are significant risks that might affect further development of the Company. Although the Company has prospective diamond projects and has demonstrated that it has the ability to obtain environmental and trial mining permits, there is a risk that these projects will not be economically mineable or that the required permits will be granted in the future. Further, future market prices for diamonds are not predictable. There is also a risk that should additional development of the properties be required, financing may not be obtainable. Repatriation of earnings and capital from Brazil is subject to compliance with registration requirements. There can be no assurance that restrictions on repatriation will not be imposed in the future.

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President, Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures was conducted as of December 31, 2009, by and under the supervision of management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures, as defined by Multilateral Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, are effective to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and forms and reported to senior management so that appropriate decisions can be made regarding public disclosure.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

An evaluation of the design of the Company’s internal control over financial reporting was conducted as of December 31, 2009, by and under the supervision of management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company’s design of internal control over financial reporting, as defined by Multilateral Instrument 52-109, *Certification of Disclosure in Issuers’ Annual and Interim Filings*, is sufficient to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

There have been no changes in internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Other information

Additional information is available on the Company’s website at www.braziliandiamonds.com or on SEDAR at www.sedar.com.

Caution Regarding Forward Looking Statements

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Forward-looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.