



Annual Report 2008

President's Message Report to Shareholders

The global economic crisis has affected all of us and has impacted our daily life far beyond our status as shareholders of Vaaldiam. Economies have weakened significantly and retail demand has dropped for basic consumer products which have resulted in job losses and low consumer confidence. Diamonds have not escaped damage from this unprecedented economic downturn and have been severely negatively impacted by diamond's status as a luxury item. Between August 2008 and January 2009, rough diamond prices declined by over 30% in response to the global economic crisis and tight credit markets in the diamond trading centres. In addition, the market for polished diamonds slipped 15% to 20% in response to weakened retail demand.

The rapid drop in the rough diamond market clearly had a significant impact on Vaaldiam and its operations. Diamonds produced by Vaaldiam during July and August 2008 when rough diamond prices were at their peak, were exported and sold two months later in September and October, when rough prices had already started their decline. With sales revenue being cut by up to 50% from the expected result, operating losses were incurred which forced the suspension of operations at the Company's Duas Barras mine in October 2008. Operations at the Chapada mine were suspended at the end of June 2008 pending the raising of financing to acquire additional mining equipment to reduce operating costs. In response to the crisis, management reduced the Company's mining and exploration workforce by approximately 80%, and undertook a further substantial reduction of on-going operating costs through administrative staff retrenchment, elimination of all bonuses and other cost-cutting measures. The Company also disposed of approximately \$900,000 of surplus capital equipment, primarily mobile equipment, to reduce the working capital deficit of the Company.

As I write this Report, rough diamond prices are on the rebound, as a result of increasing demand and supply shortages in the diamond trading centres. This lack of supply is in direct response to diamond producers, like Vaaldiam, who chose to either suspend or reduce production, or hold production in inventory, in an effort to reduce the supply of rough diamonds coming to market. This significant production cutback allowed manufacturers and retailers to consume and reduce their inventories to a level where they now have to buy rough diamonds on the market to supply their manufacturing operations. As a result of this renewed demand, rough diamond prices are on the increase, with average prices increasing about 25% from January 2009 levels. While this recent increase is certainly encouraging, producers still need to exercise caution regarding restarting production, so as to not slow or dampen the increased demand through short-term oversupply to the market.

We recently sold an 80% interest in the Braúna project for \$5,000,000. That transaction ensures that the project can rapidly advance through the bulk sampling stage while providing Vaaldiam the opportunity to recover its interest in the project to 49% at a time when the approximate diamond grade and value of the Braúna diamonds will be known. The sale of the interest in Braúna provided an important injection of working capital which greatly assists your Company in weathering the economic downturn.

As we move forward in 2009, we hope to be in a position where diamond markets will allow us to re-start production. On behalf of the Board of Directors I would like to extend our sincere appreciation to our loyal shareholders for their continued support. I would also like to take this opportunity to extend our appreciation to our dedicated staff in Brazil and Canada, for their significant contribution during the past year.

Respectfully,



Kenneth W. Johnson
President and Chief Executive Officer

May 26, 2009



OPERATIONS

During the past year, Vaaldiam operated two alluvial diamond mines, namely the Duas Barras Mine (100% ownership) in the State of Minas Gerais, Brazil, and the Chapada Mine (100% ownership) in the State of Mato Grosso, Brazil. Group production during the period amounted to 20,192.92 carats of diamonds and 438.9 ounces of gold.

Duas Barras Mine, Minas Gerais, Brazil

Since commercial diamond production commenced on September 1, 2007, to December 31, 2008 a total of 261,611 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 34,445 carats of diamonds with an average weight per stone of 0.19 carats. The recovered diamond grade of gravel treated to December 31, 2008 was 0.13 cts per bcm, which is 19% below the estimated resource grade of 0.16 cts per bcm.

Gravel volume treated during 2008 amounted to 163,936 bcm resulting in the recovery of 15,389 carats of diamonds, a recovered grade of 0.09 cts per bcm, with an average weight per stone of 0.15 carats. Diamond production during the period was lower than the last four months of 2007 as a result of the advancement of the mining operations during 2008 to a new mining panel, the consequent processing of the lower grade upper gravel sequence, coupled with a temporary shutdown of the Duas Barras plant in the second and third quarters to enable plant modifications and maintenance and the suspension of the mine in November and December due to the weak diamond market.

The Duas Barras mine sold seven parcels of diamonds during 2008. A total of 186,831 diamonds weighing 32,008.28 carats were sold for gross total proceeds of US\$4,654,634 or US\$145.42 per carat. During February 2008 a 15.68 carat diamond was recovered at the Duas Barras mine which is the largest diamond recovered to date at this mine. This diamond was sold in the second quarter for US\$78,400 or US\$5,000 per carat.

Chapada Mine, Mato Grosso, Brazil

Mining operations at the Chapada Mine were suspended at the end of June 2008, the end of the contract mining term, in order to finance and convert the mining operation from contract mining to a company-owned mining operation. These initiatives were expected to result in a reduction of operating costs, the improvement of diamond recovery and increased production. One of the key initiatives to reduce operating costs was the proposed installation of an in-pit screening plant in the mining area to reduce the cost of ore transport. Such initiatives have been deferred until financing is available and rough diamond markets rebound to levels resulting in a profitable operation. In the meantime the mine has been placed on a care and maintenance basis with a minimum of staff and security personnel.

During 2008, five parcels of diamonds were sold from the Chapada mine amounting to 5,261.60 carats in total which realized gross proceeds of US\$2,516,563 or US\$478.29 per carat. During May 2008 a diamond weighing 30.96 carat was recovered from the Chapada mine which was later sold for US\$230,033 or US\$7,430 per carat. Overall, the average sales price per carat increased by 20.3% to US\$478.29 per carat in 2008 compared with an average sales value of US\$397.53 per carat for the previous year.

EXPLORATION—BRAZIL

While Brazil is a significant producer of diamonds, all diamonds recovered in Brazil over the past some three hundred years of diamond mining history have been recovered from alluvial deposits. Vaaldiam's kimberlite exploration efforts are directed at the exploration for and development of Brazil's first kimberlite diamond deposit. The Braúna Project is the most advanced of Vaaldiam's kimberlite projects.

Braúna Project, Bahia, Brazil

Vaaldiam recently announced the sale of an 80% equity interest in the Braúna diamond project to a private group for total consideration of \$5 million. Under the terms of agreement, Vaaldiam will receive a cash payment of \$3.7 million and will be carried through the next phase of development on the Braúna property, of which Vaaldiam's share payable by the purchasers is \$0.4 million for a bulk sampling program with an estimated cost of \$2 million. The purchaser will also assume \$0.9 million of Vaaldiam's current liabilities associated with capital equipment purchases that are also included in the bulk sampling program budget for the Braúna project. Vaaldiam can increase its interest in the project to 49% following the completion of the next phase of development by reimbursing the private group 100% of their costs incurred to that date. Vaaldiam can exercise the option at upon completion of a 43-101 compliant resource estimate on the property, which is to include the independent valuation of a parcel of diamonds. Vaaldiam will remain operator of the joint venture.

Under the terms of the Joint Venture agreement, Vaaldiam retains the rights relating to the gold potential of the Braúna project area. In addition to having the potential of becoming South America's first kimberlite diamond mine, prospecting, trench sampling and reviews of geological data have revealed significant gold potential. Vaaldiam's Braúna claims are located within the important gold-producing Rio Itapicuru Greenstone Belt, which hosts Yamana Gold's Fazenda Brasileiro Mine and several advanced exploration projects where both open pit and underground gold reserves and resources have been delineated.

Catalão Property, Goiás, Brazil

The Catalão property encompasses nine kimberlite pipes, including the one hectare Catalão 1 pipe, which appears to be the largest of the nine pipes discovered to date. Sampling completed by Rio Tinto in 1998 resulted in the recovery of 52 diamonds with a total weight of 0.85 carats from a 3.6 tonne mini-bulk sample, inferring a diamond grade of 24 cpht. During 2008, Vaaldiam completed some initial prospecting on the property, which has included limited surface magnetics to define the locations of the kimberlite pipes. A program of drilling and mini-bulk sampling proposed is planned for the latter half of 2009 assuming financing is available.

Exploration— Canada

Vaaldiam acquired three diamond exploration projects in Canada in March 2008 as a result of the merger with Great Western Diamond Corporation.

Candle Lake Property, Saskatchewan, Canada

Two kimberlite bodies have been discovered to date on the Candle Lake Property, namely, the C28 and C29/30 kimberlites. The current exploration focus is on the C29/30 kimberlite. Presently, work is focusing on integrating geophysical, geotechnical, drilling and analytical results for the C29/30 kimberlite in order to complete a 3D geological model of the kimberlite body. The 2007/8 winter drilling camp was fully demobilized in August, 2008. Work involving the rehabilitation of drilling sites was completed during the first three months of 2009.

Centennial Project, Saskatchewan, Canada

The Centennial Project in Saskatchewan was also acquired as a result of the merger between Vaaldiam and Great Western. In 2006, Great Western completed an airborne geophysical survey over land located in northwestern Saskatchewan. As a result of the survey, six new airborne magnetic targets were identified with the potential to be kimberlite. Based on the airborne results the Company now holds a 100% interest in 399 claims totaling 598,242 hectares in two blocks located both south and north of the Primrose Lake Air Weapons Range. A first round of till sampling was conducted during 2006/7 to validate the exploration model, and a second round of till sampling was completed on the properties in 2007 to help better constrain kimberlite indicator mineral trains prior to the winter freeze-up. The samples were processed at the SRC laboratory in Saskatoon and results will be used, in part, to plan subsequent exploration programs. Heavy mineral abundances and indicator mineral chemistry results from this program are under evaluation.

Sufficient information is known to date to conduct follow-up ground geophysical surveys over the new targets and then core drilling if warranted.

Calling Card Property, Alberta, Canada

Exploration results obtained thus far on the Calling Card property in Alberta have provided very encouraging results with significant kimberlite indicator minerals recovered in seven different stream sediment samples, many of which were estimated from grain shape to be from a source located within a radius of approximately 5 kilometres. These stream sample results were significant enough to warrant further exploration in the form of an airborne gradiometer survey. High-resolution magnetic gradiometer data was collected, processed and plotted from a total of 1641 line-kilometres of surveying completed, which has established several targets that appear to warrant drill testing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Readers of the following Management's Discussion and Analysis should refer to the Company's audited comparative consolidated financial statements for the year ended December 31, 2008 where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following Management's Discussion and Analysis are quoted in Canadian dollars unless otherwise specified. The following Management's Discussion and Analysis is prepared as of March 27, 2009. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, operating activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration results, continued availability of capital and financing and general economic, exchange rate movements, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

OVERVIEW

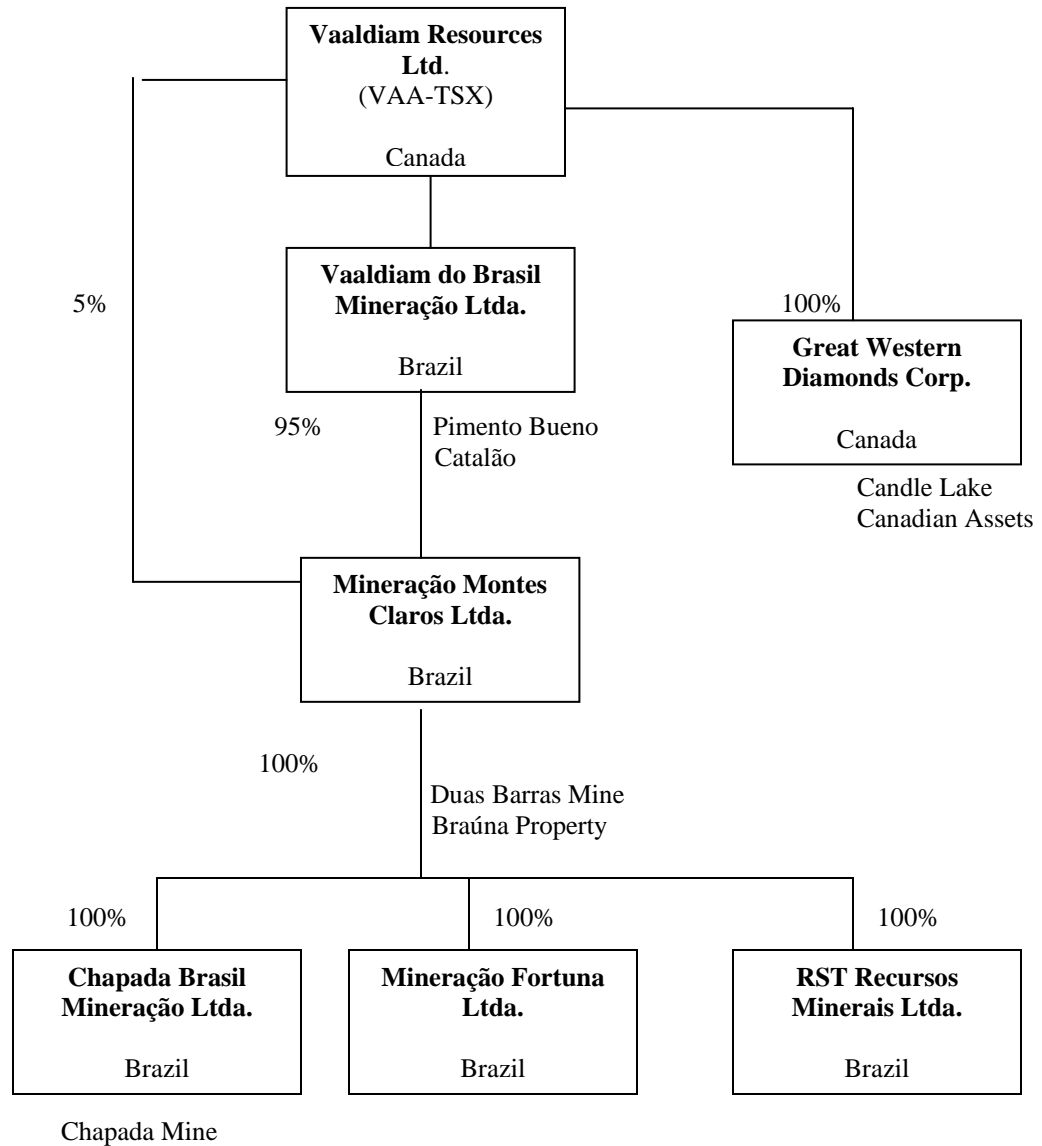
Vaaldiam Resources Ltd. ("Vaaldiam" or the "Company") is a Canadian public company listed on the Toronto Stock Exchange engaged in diamond production, mine development and exploration in Brazil and to a lesser extent in Canada. Vaaldiam's operations are conducted directly and through its subsidiaries whose relationship to Vaaldiam is reflected in the chart on the following page.

On July 1, 2008 Vaaldiam entered into an agreement to acquire RST Recursos Minerais Ltda. ("RST"), however, due to the adverse economic environment, Vaaldiam was unable to complete the transaction under its original terms. As at December 31, 2008, a total of US\$8.5 million was required to be paid to the vendors of RST to complete the transaction. In early 2009, the Company entered into a settlement agreement with the vendors of RST whereby the liability of US\$8.5 million would be repaid by the transfer of certain assets of RST back to the vendors of RST. Documents to formalize the agreements in Brazil along with the transfer of title to these assets are underway as of the date of this report.

During the first quarter of 2008 Cajueiro Mineração Ltda., which held the Braúna property, was merged with Mineração Montes Claros Ltda. ("Montes Claros"). During the second quarter of 2008 ownership of Chapada Brasil Mineração Ltda., which held the Chapada mine, was transferred to Montes Claros. During the third quarter of 2008 Mineração Fortuna Ltda. ("Fortuna"), which held the Ariqueles property, was transferred to Montes Claros. Vaaldiam's Brazilian corporations will continue to be restructured to achieve administrative and tax efficiency.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Company has other subsidiaries which are both dormant and immaterial with nominal assets and liabilities.



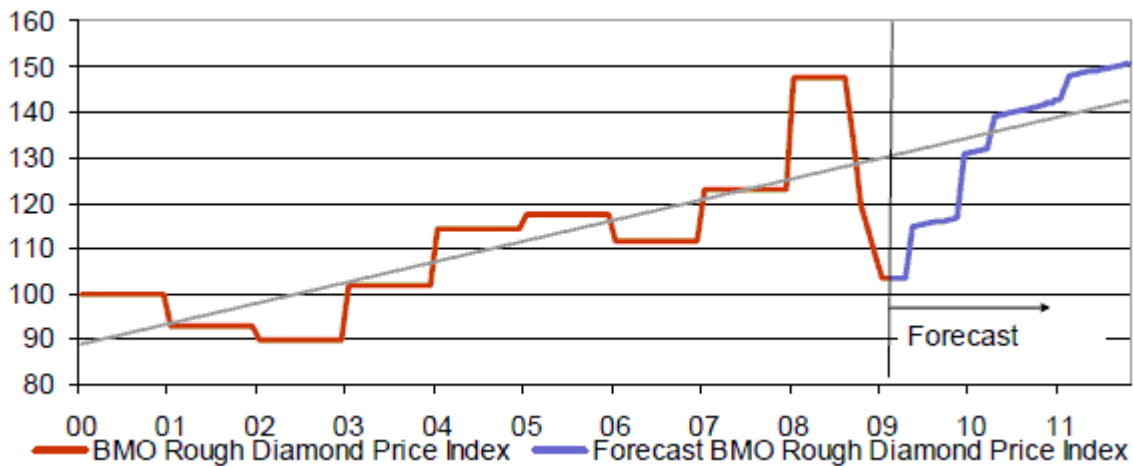
THE GLOBAL FINANCIAL CRISIS AND ITS EFFECT ON THE ROUGH DIAMOND MARKET

The pace and severity of the current economic downturn is unsurpassed in the experience of Vaaldiam management and appears to have touched on all sectors of the global economy. The diamond sector has not been immune to this crisis. Since August 2008, rough diamond prices have declined by over 30%, while the prices for polished diamonds have slipped 15% to 20% in response to weakened retail demand. The dramatic drop in rough diamond prices was a direct result of diamond manufacturers’ and retailers’ inability to access credit to support their on-going operations. As a result, manufacturers and retailers have been de-stocking their inventories since August 2008, which resulted in reduced trading of rough diamonds and much lower prices for rough diamonds.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The rapid drop in the rough diamond market had a significant impact on Vaaldiam and its operations. Vaaldiam’s diamond production is sold into the larger diamond trading centres of Antwerp, Belgium and Tel Aviv, Israel. The Company produces and exports its diamond production in compliance with the Kimberley Certification Process, which governs diamond production worldwide and ensures that the diamonds are produced from non-conflict sources. However, in Brazil, it takes approximately two months for the Kimberley Certification, export and sales process to be completed. This two-month export process means that Vaaldiam is susceptible to market fluctuations between the time the diamonds are produced and sold. Diamonds produced in July and August 2008 when rough diamond prices were at their peak, were sold two months later in September and October, when rough prices had already started their decline. With sales revenue being cut by up to 50% from the expected result, management was forced to suspend operations at its Duas Barras mine in October 2008 (operations had been previously suspended at the Chapada mine to allow financing of an owner-operated mining fleet).

The current consensus view within industry suggests that rough prices will start to recover during the latter half of 2009, when current inventories are depleted and manufacturers are forced back into the rough market. In a recent research report BMO Capital Markets forecasts “a gradual recovery in diamond prices starting midyear (2009) as destocking is completed amidst shortages created by the cuts in sales and production.” BMO expects that rough diamond prices should “return to the upward trend of the past decade by early 2010 (International Diamond Exchange News, www.idexonline.com & BMO Capital Markets Global Mining Research, March 16, 2009).



Source: www.idexonline.com & BMO Capital Markets Global Mining Research, March 16, 2009

The long-term outlook for diamonds remains strong. BMO Research said the structural dynamics that underscored sustained price increases from 2000 to mid-2007 remain unchanged despite the financial crisis. It specifically notes that no new deposits of significance have been found since the discoveries of Ekati and Diavik in Canada, and that many of the existing major mines, such as Jwaneng, Orapa and Diavik, are reaching the end of their open-pit mine lives and are transitioning to lower output underground operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In response to the current economic environment, the Company is making every effort to mitigate the adverse effects of the deteriorating global economy on its operations. Initiatives to mitigate the impact of the severe adverse economic and financial environment on the Company include:

- The suspension of mining and processing operations at both the Duas Barras and Chapada mines in response to weak rough diamond markets;
- The reduction of administrative costs through significant workforce reduction and productivity improvements;
- The sale of non-core projects;
- The sale of surplus equipment;
- The deferral of all non-essential exploration and development work;
- The relinquishing of non-strategic exploration properties; and
- Efforts to raise debt or equity capital.

Vaaldiam is endeavouring to raise additional capital through the sale of non-strategic assets, the raising of debt and the issuance of common shares notwithstanding the depressed equity and credit markets. Should Vaaldiam not be successful in raising additional capital, it may not be possible for the Company to continue as a going concern. There is no certainty that additional capital will be obtained.

OPERATIONS***PRODUCTION***

During the year ended December 31, 2008, Vaaldiam operated two alluvial diamond mines, namely the Duas Barras Mine (100% ownership) in the State of Minas Gerais, Brazil, and the Chapada Mine (100% ownership) in the State of Mato Grosso, Brazil. Group production during the period amounted to 20,192.92 carats of diamonds and 438.9 ounces of gold. Mining operations at the Chapada Mine were suspended at the end of June 2008, the end of the contract mining term, to allow the Company to finance the conversion of the mining operation from contract mining to a lower-cost company-owned mining operation. Mining operations were suspended at the Duas Barras Mine in October due to weak rough diamond markets.

Duas Barras Mine, Minas Gerais, Brazil

Since commercial diamond production commenced on September 1, 2007, to December 31, 2008 a total of 261,611 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 34,445 carats of diamonds with an average weight per stone of 0.19 carats. The recovered diamond grade of gravel treated to December 31, 2008 was 0.13 cts per bcm, which is 19% below the estimated resource grade of 0.16 cts per bcm.

Gravel volume treated during the year ended December 31, 2008 amounted to 163,936 bcm resulting in the recovery of 15,389 carats of diamonds, a recovered grade of 0.09 cts per bcm, with an average weight per stone of 0.15 carats. Diamond production during the period was lower than the last four months of 2007 as a result of the advancement of the mining operations during 2008 to a new mining panel, the consequent processing of lower grade "upper gravel sequence", coupled with a temporary shutdown of the Duas Barras plant in the second and third quarters to enable plant modifications and maintenance and the suspension of the mine in November and December due to the softening of the diamond market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a quarterly summary of the diamond production of Duas Barras between September 1, 2007 and December 31, 2008.

Quarter Ended	Overburden Removed (bcm)	Gravel Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Grade (carats per bcm)	
2007							
Sep. 30	25,934	22,838	15,139	4,304	0.28	0.19	(1)
Dec. 31	106,697	74,837	58,410	14,752	0.25	0.20	
2008							
Mar. 31	134,690	55,572	21,732	6,539	0.30	0.12	
Jun. 30	235,538	30,555	11,177	2,211	0.20	0.07	
Sept. 30	175,780	61,181	43,123	4,678	0.11	0.08	
Dec. 31	20,075	16,628	29,451	1,961	0.07	0.12	(2)
Total	698,714	261,611	179,032	34,445	0.19	0.13	

(1) Production for month of September only.

(2) Production for month of October only.

The Duas Barras mine sold seven parcels of diamonds during 2008. A total of 186,831 diamonds weighing a total of 32,008.28 carats were sold for gross total proceeds of US\$4,654,634 or US\$145.42 per carat. During February 2008 a 15.68 carat diamond was recovered at the Duas Barras mine which is the largest diamond recovered to date at this mine. This diamond was sold in the second quarter for US\$78,400 or US\$5,000 per carat. The following table presents the diamond sales conducted during the year ended December 31, 2008.

Sale	Total Stones	Total Carats	Gross Total Value (US\$)	Average Value/ct (US\$)	Average Stone Size (ct)
1	27,524	7,331.15	\$1,206,179	\$164.53	0.27
2	24,073	6,271.22	1,000,101	159.47	0.26
3	20,051	4,815.70	740,944	153.86	0.24
4	15,383	4,729.23	851,261	180.00	0.31
5	13,669	2,071.75	332,522	160.50	0.15
6	45,870	3,915.14	361,916	92.44	0.09
7	40,261	2,874.09	161,711	56.27	0.07
Total	186,831	32,008.28	\$4,654,634	\$145.42	0.17

A total of 979 carats of diamonds were held in inventory at December 31, 2008. In addition to the diamond sales during the year ended December 31, 2008, a total of 1,116.4 ounces of gold was sold for US\$942,699 or US\$844.41 per ounce.

During 2008 operations at Duas Barras were adversely affected by reduced processing plant availability due to maintenance issues. The processing plant was shut down for 19 days in total during the third quarter (21% of the period) for plant improvements and maintenance, with a further 9 days of operation at reduced processing volumes. The dense media circuit installation and the maintenance work were completed by the end of August, and were reflected in the operating statistics for September where the processing plant operated at 89% availability versus less than 50% availability during the previous month when the plant improvements and maintenance work was underway. The expenditures related to maintenance costs and the temporary loss of production for the period of 19 days during August are reflected in the operational costs and increased the operating loss for the period. The operational results were also adversely impacted by the strong Brazilian currency. During the third quarter of 2008, the Brazilian real was

MANAGEMENT'S DISCUSSION AND ANALYSIS

trading at an average exchange rate of approximately 1.54 reals to one Canadian dollar. This rate represented a 15% increase over the exchange rate at the beginning of 2008, and resulted in a comparable increase in the operating costs expressed in Canadian dollars during the period. Subsequent to the end of the third quarter, the Brazilian real has decreased in value against the Canadian Dollar, and at the time of this report is trading at a rate of 1.84 reals to one Canadian dollar. This would have a significant positive impact on the reported operating costs (expressed in Canadian dollars) at the Duas Barras Mine.

During the year ended December 31, 2008 the Duas Barras Mine recorded an operating loss of \$3,527,185 primarily as a result of reduced gravel production arising from maintenance shutdowns at the mine and the treatment of lower grade ore. Included in the operating costs in accordance with Canadian GAAP are non-cash amortization costs of \$1,864,528. On a non-GAAP basis, after adding back the non-cash amortization expense, the cash based operating loss at the Duas Barras mine for the year ended December 31, 2008 was \$1,662,657.

The carrying value of the Duas Barras mine on Vaaldiam's financial statements was written down by \$4,903,076 to \$2,030,531 at December 31, 2008, to reflect the impact of the deteriorating market conditions and declining diamond prices.

On August 13, 2008, Vaaldiam filed an updated technical report for the Duas Barras mine and Peçanha property entitled "Technical Report on the RST Diamond Exploration Property and Duas Barras Diamond Mine, Minas Gerais State, Brazil: Presenting Details of Diamond Resources Compliant with Canadian National Instrument 43-101" and can be viewed under Vaaldiam's profile at www.sedar.com.

The Peçanha Diamond Mine of RST

In July 2008 Vaaldiam entered into an agreement to strategically acquire the neighbouring Peçanha mine and extensive concessions adjoining its Duas Barras mine in the State of Minas Gerais, Brazil. Vaaldiam's acquisition of RST Recursos Minerais Ltda. ("RST"), a Brazilian-registered company and owner of the producing Peçanha diamond mine, would also have provided Vaaldiam with a second 2,000 tonne per day diamond recovery plant and a new mining fleet which would have increased diamond production at Duas Barras, and reduce the unit costs of operation due to the larger volume of gravels being processed. If completed, the acquisition of RST would have significantly expanded the Company's operations in the historic Diamantina diamond district and would have strengthened Vaaldiam's position as South America's largest diamond producer.

Under the terms of the acquisition agreement, Vaaldiam would acquire 100% ownership of RST and would acquire two outstanding RST loans from Marrakwnene Holding, Investimentos E Participações, Ltda. ("Marrakwnene") and Redburn Investments Inc. ("Redburn").

In consideration for this, Vaaldiam would be required to pay the following:

- US\$1,500,000 less US\$330,000 representing agreed liabilities of RST at July 1, 2008 paid in common shares of the Company; and
- US\$9,000,000 less approximately US\$1,400,000 representing certain payables of RST at July 1, 2008.

On July 1, 2008, the Company delivered 3,374,185 common shares and paid cash of US\$500,000. The remaining US\$7,100,000 due to Marrakwnene and Redburn and the approximately US\$1,400,000 due to an RST supplier, totalling US\$8,500,000, was payable on or before August 15, 2008. Funding to pay the balance of US\$8,500,000 to acquire RST was to have been substantially provided from the rights issue which closed on September 17, 2008. Due to the fact that the shares of Vaaldiam traded at a discount to the rights exercise price throughout the rights exercise period, only \$106,340 of gross proceeds were raised as a result of the rights. As Vaaldiam was unable to pay the amount of US\$8,500,000 owing to the vendors of RST, Vaaldiam agreed to transfer the RST mining equipment and concessions to the vendors as repayment of the amount of US\$8,500,000. Documentation to formalize the agreements in Brazil along with the transfer of title to these assets is underway as of the date of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chapada Mine, Mato Grosso, Brazil

Mining operations at the Chapada Mine were suspended at the end of June 2008, the end of the contract mining term, in order to finance and convert the mining operation from contract mining to a company owned mining operation. These initiatives were expected to result in a reduction of operating costs, the improvement of diamond recovery and increased production. One of the key initiatives to reduce operating costs was the proposed installation of an in-pit screening plant in the mining area to reduce the cost of ore transport. Such initiatives have been deferred until financing is available and rough diamond markets rebound to levels resulting in a profitable operation. In the meantime the mine has been placed on a care and maintenance basis with a minimum of staff and security personnel.

During the six months ended June 30, 2008 the Chapada Mine processed 198,291 bcm of gravel resulting in the recovery of 9,609 diamonds with a total weight of 4,803 carats, a recovery rate of 0.024 cts per bcm. As a result of the suspension of operations, there was no diamond production during the second half of 2008. The following table provides a quarterly summary of the diamond production of Chapada during each quarter of 2008 and 2007.

Quarter Ended	Gravel Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Grade (carats per bcm)
2007					
Mar. 31	155,936	10,157	5,725	0.56	0.037
Jun. 30	199,252	10,283	5,678	0.55	0.028
Sep. 30	127,261	7,622	4,265	0.56	0.034
Dec. 31	82,927	4,258	2,224	0.52	0.027
Total 2007	565,376	32,320	17,892	0.55	0.032
Mar. 31	90,470	5,034	2,311	0.46	0.026
Jun. 30	107,821	4,575	2,492	0.54	0.023
Sep. 30	-	-	-	-	-
Dec. 31	-	-	-	-	-
2008	198,291	9,609	4,803	0.50	0.024

During the year ended December 31, 2008, five parcels of diamonds were sold from the Chapada mine amounting to 5,262 carats in total which realized gross proceeds of US\$2,516,563 or US\$478.29 per carat. During May 2008 a diamond weighing 30.96 carat was recovered from the Chapada mine which was later sold for US\$230,033 or US\$7,430 per carat. Overall, the average sales price per carat increased by 20.3% to US\$478.29 per carat for the six months of operations during the year ended December 31, 2008 compared with an average sales value of US\$397.53 per carat for the 2007 sales. The following table reflects the diamond sales during the year.

Sale	Total Stones	Total Carats	Gross Total Value	Average Value/ct (US\$)	Average Stone Size (ct)
1	1,747	909.50	\$363,800	\$400.00	0.52
2	3,116	1,401.00	581,170	414.83	0.45
3	2,671	1,316.89	520,880	395.54	0.49
4	1,967	1,116.00	892,708	800.00	0.57
5	1,043	518.21	158,005	304.91	0.50
Total	10,544	5,261.60	\$2,516,563	\$478.29	0.50

During the year ended December 31, 2008 an operating loss of \$4,114,045 was recorded at the Chapada mine. Included in the operating costs under Canadian GAAP are \$738,876 of non-cash amortization costs. On a non-GAAP

MANAGEMENT'S DISCUSSION AND ANALYSIS

basis, after adding back the non-cash amortization expenses, the cash based operating loss at the Chapada mine would have been \$3,375,169 for the year ended December 31, 2008.

The full carrying value of the Chapada mine of \$8,116,872 was written off at December 31, 2008, to reflect the impact of the deteriorating market conditions and declining diamond prices. In addition, the carrying value of the Chapada exploration properties was reduced by \$64,477,838 to \$2,871,912 to reflect the current depressed market value for early stage exploration properties.

EXPLORATION - BRAZIL

While Brazil is a significant producer of diamonds, all diamonds recovered in Brazil over the past some three hundred years of diamond mining history have been recovered from alluvial deposits. Vaaldiam's kimberlite exploration efforts are directed at the exploration for and development of Brazil's first kimberlite diamond deposit. The Braúna Project is the most advanced of Vaaldiam's kimberlite projects.

Braúna Project, Bahia, Brazil

Vaaldiam's 100% owned Braúna Project is located in the state of Bahia in Brazil near the town of Nordestina. Four diamond bearing kimberlite pipes have been discovered on the property to date. The pipes are known to be associated with an extensive diamond bearing kimberlite dike system which has been traced over a distance of 15 kilometres. Attention is currently focused on the development of the Braúna 3 pipe and the completion of a bulk sampling program and feasibility study.

The Braúna 3 pipe encompasses about 1.85 hectares and was the focus of a drilling program in 2007 and early 2008 designed to delineate the pipe in sufficient detail to support a resource calculation. A total of 56 holes were drilled on the Braúna 3 pipe utilizing 25 metre drill spacing, delineating the pipe to a depth of approximately 200 metres. In addition, 39.84 dry tonnes of kimberlite were extracted from the Braúna 3 pipe yielding 59 diamonds weighing a total of 8.26 carats, inferring a recovered grade of 21 carats per hundred tonnes (cpht). Wardrop Engineering Inc., an independent geological and engineering consulting firm, was engaged to complete an initial tonnage estimate for the Braúna 3 pipe based on drill results to date.

The following tables present the estimated kimberlite tonnage to a depth of approximately 200 metres based on a conservative or rigorous modeling of the body that strictly honours drill hole intersections, and an estimate of the tonnage based on an optimistic model which assumes typical kimberlite morphology or shape. Also included in the tables below is the estimate of the diamond content in cpht based on the results of the mini-bulk sampling completed during 2007.

Kimberlite Body	Tonnage Estimation (tonnes)	Total Core Holes Drilled To Date	Deepest Kimberlite Intersection (vertical metres)	Sample Results	
				Sample Weight (tonnes)	Inferred Diamond Content (cpht)
Conservative Model					
Braúna 3 North	1,026,510	26	200.70	2.15	24
Braúna 3 South	3,676,137	30	201.45	37.69	21
Total Braúna 3	4,702,647	56	201.45	39.84	21

MANAGEMENT’S DISCUSSION AND ANALYSIS

Kimberlite Body	Tonnage Estimation (tonnes)	Total Core Holes Drilled To Date	Deepest Kimberlite Intersection (vertical metres)	Sample Results	
				Sample (tonnes)	Weight Inferred Diamond Content (cpht)
Optimistic Model					
Braúna 3 North	1,312,087	26	200.70	2.15	24
Braúna 3 South	4,242,007	30	201.45	37.69	22
Total Braúna 3	5,554,094	56	201.45	39.84	21

Detailed drilling was also completed on a dike-like body comprising the central portion of the Braúna 3 pipe, where the kimberlite narrows to a width of approximately 20 metres. The kimberlite comprising the dike system, which forms a link between the northern and southern lobes of the pipe, appears to be a late-stage intrusion representing less than 10% of the entire Braúna 3 kimberlite, based on drilling completed to date.

Kimberlite Body	Tonnage Estimation (tonnes)	Total Core Holes Drilled To Date	Deepest Kimberlite Intersection (vertical metres)	Sample Results	
				Sample (tonnes)	Weight Inferred Diamond Content (cpht)
Conservative Model					
Braúna 3 Central Dike	320,790	18	228.14	44.9	6
Optimistic Model					
Braúna 3 Central Dike	563,406	18	228.14	44.9	6

This tonnage estimate for the Braúna 3 pipe does not constitute a mineral resource as defined by National Instrument 43-101. This calculation is simply an order-of-magnitude estimate of the potential tonnage for this kimberlite body. The tonnage was calculated by multiplying the respective interpreted volumes for each body, as determined in a three-dimension wire frame model, by the average specific gravity for each body as determined from measurements made on a drill core at one metre intervals. The conservative model is based on an interpretation of the margins of the body based on strict geological contacts identified in the drill core, and projects kimberlite contacts only 15 metres from each drill hole intercept. The optimistic model follows a similar procedure but projects kimberlite contacts up to 30 metres from each drill hole. There exists significant potential to refine the current tonnage estimates through additional drilling at depth and along strike of the body. A 5,000 tonne bulk sampling program is currently underway and is designed to confirm the diamond content of the Braúna 3 pipe and its associated dike systems, and produce a parcel of diamonds for valuation purposes. A new 10 tonne per hour dense media recovery plant has been constructed in South Africa to process the bulk sample and will be shipped to the site as soon as sufficient working capital is available. Information generated during this program, coupled with the information from the recently completed delineation drilling, would provide the basis for the feasibility study.

Approximately five kilometres to the north of the Braúna 3 pipe lies the Braúna 8 kimberlite dike. Mini-bulk samples extracted from the Braúna 8 dike weighing 45.75 dry tonnes yielded 167 macro diamonds weighing 19.21 carats in total, inferring a recovered grade of 42 cpht. Included in the diamonds recovered was a 7.97 carat white octahedron stone, the largest recovered to date by Vaaldiam from the Braúna kimberlite. The second largest diamond recovered from the Braúna 8 kimberlite was a 0.92 carat stone pink in color, while another pink diamond was recovered, which appeared to have been broken during processing. The Braúna 8 occurrence is a 4.5 metres wide, vertically oriented kimberlite dike forming a 1,000 metre long section of the northwest trending dike system. Recent exploration conducted in the vicinity of the Braúna 8 dike has confirmed that this dike is linked to the Braúna 21 pipe.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the sampling results to date on the Braúna project:

Kimberlite	Dry Weight (Tonnes)	Number of Diamonds Recovered	Weight of Diamonds (carats)	Inferred Diamond Grade (cpht)	Average Carat Size of Diamonds
Braúna 3 pipe	39.84	59	8.26	21	0.14
Braúna 7 pipe	86.65	28	3.76	4	0.13
Braúna 8 dike	45.70	167	19.21	42	0.12
Braúna 11	28.18	40	5.31	19	0.13
Braúna 21	22.59	19	1.58	7	0.08
Total	222.96	313	38.12	17	0.12

In addition to the main Braúna concessions, Vaaldiam acquired in June 2006, through its subsidiary VBM, a 1,400 hectare exploration licence covering the Aroeira kimberlite. The Aroeira kimberlite is located 50 kilometres to the west of the Braúna property. The property was awarded to VBM upon application to the DNPM. The Aroeira kimberlite is a one metre wide dike system that was discovered by De Beers in 1993 during an alluvial sampling campaign. The kimberlite occurrence has never been sampled or drilled.

Four exploration concessions were acquired in July 2008 which expanded the Braúna property and closed up some gaps in the land package. The four new concessions were acquired from Mineração Monte Alegre, a Brazilian registered company which is controlled by Santa Elina Mines. Included within these new concessions is the Braúna 13 kimberlite occurrence, which was discovered by De Beers in the mid-1990s. Initial sampling by De Beers indicated that the kimberlite was diamond bearing.

Vaaldiam is currently evaluating the gold potential of the Braúna project as the geology in the region is favourable to the hosting of gold.

During the year ended December 31, 2008 a total of \$1,199,759 was spent on the Braúna project, including Aroeira and the Monte Alegre concessions, bringing total expenditure to date on this project to \$11,076,074 including acquisition costs of \$5,951,664.

Pimenta Bueno Property, Rondônia, Brazil

In June 2007 the Company announced an agreement with Rio Tinto Desenvolvidos Minerai Ltda. ("Rio Tinto") which provides Vaaldiam with operatorship and 100% ownership of the Pimenta Bueno diamond project, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe bulk sampled on the property. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in operating cash flow from the mine without the need to raise development equity funding.

Should Rio Tinto not exercise its option then Vaaldiam would continue to own 100% of that kimberlite deposit to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam. Under the agreement, Vaaldiam has also assumed operatorship of the 100% owned 40,000 hectares Northern Block of the Pimenta Bueno property.

A total of 38 kimberlite pipes and three dike systems have been discovered to date on the Pimenta Bueno property, situated in the State of Rondônia, Brazil, including seven kimberlites discovered by Rio Tinto over the past three years. Eighteen of the pipes are diamond bearing based on sampling completed to date. Only four of the 38 pipes have been mini-bulk sampled, with less than 200 tonnes of kimberlite having been tested thus far.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Following the agreement with Rio Tinto, the Company mobilized its exploration team to the property to conduct a mini-bulk sampling program on the Cosmos 1 and 2 diamond bearing kimberlites utilizing a sampling method successfully used by Vaaldiam on its Braúna kimberlites. This method involved the collection of 250 tonnes of kimberlite from vertical shafts excavated to a depth of 30 metres. The extraction of samples in this manner provides the maximum sample coarseness in order to minimize diamond breakage. In addition, the excavation of kimberlite samples in this manner is a more cost effective method of bulk sampling than using a drill to recover bulk sample material.

As of December 31, 2008 the Company had extracted a 243 wet tonnes sample from three vertical shafts excavated into the 2.3 hectare Cosmos 1 kimberlite to depths ranging from approximately 7 to 14 metres. The goal of this sampling effort is to provide an indication of the diamond grade and diamond distribution in the Cosmos 1 pipe, and to compare the results generated in this sampling program to the results generated for a 62 dry tonne sample collected by Rio Tinto in 2006 when a grade of 4 cpht was inferred from this pipe. The samples extracted by Vaaldiam are being processed at the Company's recovery plant in the state of Bahia, Brazil, and an 84.68 dry tonne sample has been processed (99.66 wet tonnes) from the Cosmos 1 kimberlite resulting in an inferred grade of 3 cpht for the Cosmos 1 pipe compared with the 4 cpht inferred from Rio Tinto's sample.

As of December 31, 2008, the Company reduced its land holdings in the Pimenta Bueno area to less than 10 exploration licences covering the main cluster of kimberlite pipes. The remaining licences are planned to be relinquished in 2009 unless rough diamond markets improve. As a result, the exploration expenditures to date of \$5,683,139, including \$265,311 of acquisition costs were fully written off in 2008.

Ariquemes Property, Rondônia, Brazil

The Ariquemes Property is owned by Vaaldiam's now wholly owned subsidiary Great Western Diamonds Corp. ("Great Western"). In March 2007, Great Western acquired 100% of Oleander Financial Inc. ("Oleander") from Santa Elina Mines Corporation ("SEMC"). Ownership of Oleander's wholly owned subsidiary Mineração Fortuna Ltda., which owns the Ariquemes Property, was transferred to Montes Claros in the third quarter of 2008.

The Ariquemes Property is located in the State of Rondônia some 200 kilometres to the east of the Pimenta Bueno Property. Twelve kimberlites have been discovered to date on this property in three clusters and five of the eight kimberlites sampled in 2006 were found to be diamond bearing. As of December 31, 2008, the Company had relinquished its landholdings in the Ariquemes area. As a result, the carrying value of \$15,991,083 has been fully written off as at December 31, 2008,

Catalão Property, Goiás, Brazil

In August 2007, the Company acquired the diamond-bearing Catalão kimberlite pipes from Rio Tinto. The Catalão kimberlites are located in the state of Goiás, approximately 280 kilometres south of Brazil's capital city, Brasilia. The property encompasses nine possible kimberlite pipes, including the one hectare Catalão 1 pipe, which appears to be the largest of the nine pipes discovered to date. Sampling completed by Rio Tinto in 1998 resulted in the recovery of 52 diamonds with a total weight of 0.85 carats from a 3.6 tonne mini-bulk sample, inferring a diamond grade of 24 cpht. During 2008, Vaaldiam completed some initial prospecting on the property, which has included limited surface magnetics to define the locations of the kimberlite pipes. A program of drilling and mini-bulk sampling proposed has been deferred until financing is available.

Under the terms of the acquisition agreement for the Catalão Property, Vaaldiam holds 100% ownership of the property, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe that has been bulk sampled, resulting in the recovery of at least 200 carats of commercial sized diamonds. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby

MANAGEMENT'S DISCUSSION AND ANALYSIS

allowing Vaaldiam to retain a 40% equity interest in operating cash flow from the mine without the need to raise development equity funding. This non-recourse loan would be repaid to Rio Tinto from a portion of Vaaldiam's share of cash flow from the deposit. Should Rio Tinto not exercise its option then Vaaldiam would continue to own 100% of that kimberlite deposit to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam.

The Catalão Property is carried on Vaaldiam's books at a cost of \$9,265 representing the exploration expenditures incurred up to December 31, 2008.

Três Marias Project

During June 2008 Vaaldiam acquired ownership of the Três Marias diamond project in Brazil from Majescor Resources Inc. ("Majescor"). The project is located 200 kilometres northwest of Belo Horizonte in the state of Minas Gerais. In September 2008 a decision was made to not renew the claims comprising the Três Marias Property when they next come up for renewal. As a result an amount of \$342,118 representing the costs incurred up to December 31, 2008 was fully written off.

EXPLORATION - CANADA**Candle Lake Property, Saskatchewan, Canada**

Vaaldiam acquired the Candle Lake Property on January 2, 2008 following the completion of the merger with Great Western. On February 27, 2008 a private placement of \$2,000,000 of Great Western flow-through shares was completed to fund the 2007/8 winter exploration program on the Candle Lake property. A further private placement of \$750,000 in flow-through funds was completed in October 2008.

The Candle Lake Property consists of 35 mineral claims totalling 14,151 hectares in the Candle Lake area of the Province of Saskatchewan located about 90 kilometres northeast of Prince Albert, Saskatchewan and 50 kilometres northeast of the Fort à la Corne kimberlite cluster. Great Western holds a 100% interest in all 35 claims subject to royalty interests, however, Great Western has no surface rights to the lands comprising the Candle Lake Property. Two kimberlite bodies have been discovered to date on the Candle Lake Property, namely, the C28 and C29/30 kimberlites. The current exploration focus is on the C29/30 kimberlite.

Drilling and minibulk sample collection during the 2006/7 winter field program at Candle Lake involved the drilling of 26 PQ core holes (85 mm diameter) totaling 6,306.22 m covering part of the southern portion of the C29/30 kimberlite body and along approximately 1,000 m of the central axis of the kimberlite body. A subset of these core holes was utilized as pilot holes for nine large diameter (609.6 mm or 24 inch), reverse circulation drill holes (LDD) of which seven were located on the southern part of the C29/30 kimberlite and two on the central and northern axis of the kimberlite. A total of 189 representative kimberlite samples (1,544.4 kg) were taken from the core and submitted to the Saskatchewan Research Council for diamond recovery down to a bottom size cutoff of 106 microns.

A total of 2,215.14 m were drilled as large diameter boreholes with 856.25 m of kimberlite intersected and 497.97 tonnes of +0.98 mm minibulk sample material retained from an estimated excavated mass of 632.94 tonnes. Samples were processed on a three to nine metre interval basis within the boundaries of individual kimberlite units determined by detailed description of rock from core holes twinned by the LDD.

The SRC Geoanalytical Laboratories ("SRC") dense media plant commenced processing the Great Western samples from the 2006-07 drilling program on September 13, 2007 after a protracted period of plant construction and commissioning. A total of 370 stones weighing 13.99 carats were recovered from the 632.94 tonne kimberlite sample inferring a grade of 2 carats per hundred tonnes. The largest diamonds recovered from the program were from the kimberlite #1 unit and weighed 0.91 carats and 0.43 carats. Candle Lake diamonds appear to be very similar in terms

MANAGEMENT'S DISCUSSION AND ANALYSIS

of colour, clarity and gem abundance to those recovered to date in the rest of the Fort á la Corne Kimberlite Field – that is, there is a large proportion of white and near white stones with few inclusions. The results of sampling to date of the C29/30 kimberlite are reflected below:

Kimb. Unit and Lobe	Kimb. Mass (t)	Number of Stones	Weight (ct)	Inferred cpht	Number of Stones >0.1 ct	Weight of Stones >0.1 ct	No. of Stones >0.3 ct	Weight of Stones >0.3 ct
Kimb 1 South	213.53	137	6.89	3	19	4.60	5	2.63
Kimb 2 South	121.67	59	1.55	1	3	0.43	0	0.00
Kimb 3 South	139.21	78	2.23	2	2	0.50	1	0.31
Kimb 4 North	45.96	29	1.35	3	3	0.71	1	0.38
Kimb 6 North	112.57	67	1.97	2	4	0.89	1	0.40
Total	632.94	370	13.99	2	31	7.13	8	3.72

The 2007/8 winter program included delineation drilling on the C29/30 kimberlite of 21 core holes with the main objective of delineation and sampling for microdiamond recovery on the south part of the kimberlite with a secondary objective of completing holes for delineation purposes on the central and northern parts of the kimberlite.

The 21 core holes drilled during the 2007/8 drilling season yielded 1,591.03 metres of drill core and 1,126.49 metres of kimberlite intersection. The drill core intersections indicate a relatively thick and continuous tabular body and have expanded the calculated tonnage of the C29/30 kimberlite. A total of 113 representative kimberlite samples (862 kg) were taken from the core and submitted to the SRC for diamond recovery down to a bottom size cutoff of 106 microns. The combined recovery of diamonds from kimberlite core sampled and analyzed during the 2006/7 and 2007/8 programs was 1,120 diamonds including 1,100 microdiamonds and 20 macrodiamonds with a total weight of 0.15087 carats. Presently, work is focusing on integrating geophysical, geotechnical, drilling and analytical results for the C29/30 kimberlite in order to complete a 3D geological model of the kimberlite body. The 2007/8 winter drilling camp was fully demobilized in August, 2008.

As the results of exploration to date indicated that the southern part of one of the two kimberlite bodies discovered to date was of lower diamond grade and likely would not be economic in the current market, the value of Candle Lake was written down to \$5,013,617 as at December 31, 2008, which represents management's estimate of the current fair value of these deposits.

Centennial Project, Saskatchewan, Canada

The Centennial Project in Saskatchewan was acquired as a result of the merger between Vaaldiam and Great Western.

In 2006, Great Western completed an airborne geophysical survey over land located in northwestern Saskatchewan. As a result of the survey, six new airborne magnetic targets were identified with the potential to be kimberlite. Based on the airborne results the Company now holds a 100% interest in 399 claims totaling 598,242 hectares in two blocks located both south and north of the Primrose Lake Air Weapons Range. A first round of till sampling was conducted during 2006/7 to validate the exploration model, and a second round of till sampling was completed on the properties in 2007 to help better constrain kimberlite indicator mineral trains prior to the winter freeze-up. The samples were processed at the SRC laboratory in Saskatoon and results will be used, in part, to plan subsequent exploration programs. Heavy mineral abundances and indicator mineral chemistry results from this program are under evaluation.

Sufficient information is known to date to conduct follow-up ground geophysical surveys over the new targets and then core drilling if warranted. However, all future exploration work in this area has been delayed due to difficulties in obtaining a surface access agreement with the local First Nations under the "Duty to Consult" obligation of

MANAGEMENT'S DISCUSSION AND ANALYSIS

Saskatchewan Environment during the permitting process. Saskatchewan Industry and Resources have put an indefinite extension on deadlines for submission of assessment work to maintain claims in good standing. Regular contact with the First Nations group involved is on-going and negotiations with the Canoe Lake Cree Nation for an Early Exploration Agreement have now been completed. Additional community liaison is necessary with the Buffalo River Dene First Nation in order to allow non-conflicted access to the exploration area.

In 2009, the number of concessions will be reduced to those which have significantly higher resource potential based on interpretation of the 2006 airborne magnetic survey central to these claims in conjunction with kimberlite indicator mineral results in 2007. To reflect this reduction in claims, the value of the Centennial Project was written down to \$186,174 as at December 31, 2008.

Alberta Area Properties, Alberta, Canada

The Alberta Properties were acquired as a result of the merger between Vaaldiam and Great Western. The Alberta Area Properties consist of the Utikuma, Birch Mountain, Peerless Lake, Calling Card, and La Biche properties. During 2007, Vaaldiam spent \$173,730 on the exploration of these properties in return for a 1% gross sales royalty on any diamonds sold from these properties should they be brought to production. Assessment Reports were recently completed for each of the Alberta properties and were submitted to Alberta Mineral Development and Strategic Resources Division. Following the analysis of sampling results, the Birch Mountain land claim was allowed to lapse.

At the Utikuma, La Biche, Calling Card, and Peerless Lake properties, Great Western collected bulk till samples in 2007 for indicator mineral analyses. No anomalies were identified on the Peerless Lake property, and the claims comprising that property have been allowed to lapse. Similarly, no indicator mineral trends were identified on the Calling Lake properties and earned assessment credits were concentrated on a few potentially key claims to extend control for one more year. At the Utikuma property bulk samples were also collected during 2007 with the objective of tracking kimberlite indicator minerals to their source. Samples from the Utikuma property were submitted for processing in late 2007 and results indicate a probable regional source of kimberlite indicator minerals likely from the Buffalo Head Hills Kimberlite Field located immediately north of the Utikuma property. Assessment credits earned for the Utikuma property were applied to 4 key claims including one with an unexplained pipe-like seismic anomaly, in order to hold the land for another year and the remainder of the Vaaldiam claims were allowed to lapse.

A number of kimberlite indicator mineral anomalies were identified on the Calling Card property. During 2006 and 2007, a total of 42 samples were collected across the Calling Card property. This sampling program provided very encouraging results with significant kimberlite indicator minerals recovered in seven different stream sediment samples, many of which were estimated from grain shape to be from a source located within 5 kilometres. These stream sample results were significant enough to warrant further exploration in the form of an airborne gradiometer survey. High-resolution magnetic gradiometer data was collected, processed and plotted from a total of 1641 line-kilometres of surveying by Goldak Airborne Surveys. This survey established several targets that are possibly not associated with culture and future work is being evaluated by the Company.

At December 31, 2008, the Alberta area properties were written down by \$501,495 and are currently carried on Vaaldiam's books at \$280,014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Saskatchewan, Canada Properties

The Snowden property in Saskatchewan was acquired as a result of the completion of the merger between Vaaldiam and Great Western on January 2, 2008. During 2006 and 2007 Great Western completed a ground magnetic geophysical survey and two core holes totaling 328 metres on the Snowden property. A 14 m thick intersection of vent-distal kimberlite was intersected in one drillhole and was not tested further. The Snowden property was written down to \$225,284 at December 31, 2008.

EXPLORATION - AUSTRALIA**Queensland and Northern Territory, Australia**

The Company, through its wholly-owned subsidiary Elkedra Diamonds Pty Ltd. (formerly Elkedra Diamonds N.L.) ("Elkedra"), held exploration permits in four Queensland tenements, namely, Cravens Peak, Cravens Peak North, Seymour River, and Thornton River. Through an agreement with Uramet Minerals Ltd. ("Uramet"), a company listed on the Australian Securities Exchange and a former subsidiary of Elkedra, Uramet held the non-diamond exploration and mining rights to these properties, while Elkedra held the diamond exploration and mining rights on several Uramet owned tenements in the Northern Territory, namely, Dulcie, Field River, Marqua, Central Mount Stuart, Mount Skinner East, Harper Springs and Prince Henry. In 2008, some of these claims were allowed to lapse. In December 2008, Elkedra entered into an agreement with Uramet and Legend International Holdings Ltd. ("Legend") whereby Elkedra would sell the diamond exploration and mining rights of the remaining claims to Legend for A\$150,000. The agreement was subject to the approval of the Foreign Investment Review Board of Australia and the Minister for Mineral in Queensland, such approval was received in February 2009 and the transaction thus completed.

SELECTED FINANCIAL INFORMATION

	2008	2007	2006
Sales	\$ 7,602,941	\$ 1,399,303	\$ -
Net loss from continuing operations			
- total	\$ 102,106,199	\$ 5,444,390	\$ 3,517,506
- per share	\$ 0.46	\$ 0.06	\$ 0.04
Cash and cash equivalents	\$ 480,197	\$ 10,928,569	\$ 12,318,783
Restricted cash	\$ 650,299	\$ -	\$ 429,300
Inventories	\$ 122,034	\$ 2,406,024	\$ -
Working capital (deficit)	\$ (16,673,218)	\$ 11,849,446	\$ 11,455,710
Property, plant and equipment (including assets under construction)	\$ 8,328,486	\$ 10,455,555	\$ 1,421,036
Mineral properties	\$ 21,692,871	\$ 97,547,162	\$ 10,468,100
Total assets	\$ 42,608,584	\$ 123,253,824	\$ 24,862,182
Line of credit	\$ 3,061,500	\$ -	\$ -
Future tax liabilities	\$ -	\$ 25,856,571	\$ -
Shareholders' equity	\$ 23,621,717	\$ 94,943,344	\$ 23,344,846
Cash dividends per share	\$ -	\$ -	\$ -

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS

Quarters Ended	Sales	Net Loss	
		Total	Per Share
December 31, 2008	\$ 754,345	\$ (32,619,714) ⁽¹⁾	\$ (0.13)
September 30, 2008	\$ 646,136	\$ (58,205,978) ⁽¹⁾	\$ (0.26)
June 30, 2008	\$ 2,691,599	\$ (6,522,592)	\$ (0.03)
March 31, 2008	\$ 3,510,861	\$ (5,276,048)	\$ (0.03)
December 31, 2007	\$ 1,399,303	\$ (616,446)	\$ (0.00)
September 30, 2007	\$ -	\$ (680,456)	\$ (0.01)
June 30, 2007	\$ -	\$ (751,769)	\$ (0.01)
March 31, 2007	\$ -	\$ (3,395,719)	\$ (0.04)

⁽¹⁾ Includes write-down of properties.

FINANCIAL REVIEW

During the year ended December 31, 2008 a loss from continuing operations of \$102,106,199 or \$0.46 per share was recorded compared to a loss of \$5,444,390 or \$0.06 per share in the corresponding period of the prior year. The increased loss of \$96,661,809 arose primarily from an increased write-down of properties of \$114,845,866, an increased mine operating loss of \$7,256,608, increased corporate and general expense of \$1,000,050, increased amortization of \$60,533, decreased interest income (net of interest expenses) of \$317,695, increased stock-based compensation expense of \$30,010 and increased foreign exchange loss of \$3,233,160. In addition, during the year ended December 31, 2008, the Company recorded financing costs of \$404,060, a provision for Brazilian taxes and contributions recoverable of \$839,297 and a loss on disposal of property, plant and equipment of \$124,821. This was offset by an increased income tax recovery of \$31,449,693 as a result of the write-down of certain Brazilian assets.

The increase in corporate and general expenses arose mainly from acquisitions completed early 2008 as well as a higher level of activity in the most recent year requiring additional personnel, upgraded control systems, increased audit fees and increased general administration expenses. Initiatives to significantly reduce corporate and general expenses, and operating expenses through the reduction of personnel were being implemented during the fourth quarter of 2008.

The gross mining loss resulted from an operating loss of \$3,527,185 recorded at the Duas Barras mine in accordance with Canadian GAAP, which includes non-cash amortization of \$1,864,528. On a non-GAAP basis, after adding back the non-cash amortization expense, the cash based operating loss at Duas Barras mine for the year ended December 31, 2008 was approximately \$1,662,657. An operating loss of \$4,114,045 was recorded at the Chapada mine. Included in the operating costs under Canadian GAAP is \$738,876 of non-cash amortization costs. On a non-GAAP basis, after adding back the non-cash amortization expenses, the cash based operating loss at the Chapada mine would have been \$3,375,169 for the year ended December 31, 2008. Interest income declined due to a lower average level of cash and cash equivalents on deposit. Interest expense increased due to the line of credit drawn down during the third quarter of 2008.

During the year ended December 31, 2008 and 2007, amounts of \$1,525,335 and \$1,495,325 respectively were incurred relating to stock based compensation expenses. During the year ended December 31, 2008 an amount of \$116,496,767 was written off relating to various properties in Brazil and Canada. This non-cash charge represents a \$5,751,358 impairment charge recorded on the Duas Barras property, a \$11,711,387 impairment charge recorded on the Chapada mine and equipment and a \$99,034,022 write-down of exploration properties. During the year ended

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007, an amount of \$1,650,901 was written off representing exploration expenses incurred with respect to the Coronation Gulf property.

The foreign exchange loss of \$2,983,937 incurred during the year ended December 31, 2008 related mainly to the non-cash revaluation of the future tax liability and arose from the appreciation of the Brazilian real against the Canadian dollar.

To date, seasonality has had relatively little effect on the quarterly financial results of the Company, with the exception of the renunciation of Canadian Exploration Expense to flow-through share investors, which typically takes place in the last quarter of the year during which flow-through shares are issued, resulting in a related income tax recovery. It is possible that the wet season, corresponding to part of the first and fourth quarters, could have some negative effect on diamond operations in future years.

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES**Liquidity**

As at December 31, 2008, the Company had a working capital deficit of \$16,673,218, the cash portion of which was \$1,130,496. Vaaldiam has never invested in asset backed commercial paper. As at December 31, 2008, the Company had restricted cash in the amount of \$650,299 relating to flow-through share issuance proceeds which are required to be expended on Canadian Exploration Expense qualifying expenditures before December 31, 2009. Diamond, gold and supplies inventories as at December 31, 2008 were recorded at \$122,034. Accounts payable and accrued liabilities at December 31, 2008 amounted to \$4,167,574. At December 31, 2008 \$10,409,100 was owed to the vendor of RST which is being settled in full by the transfer of assets and concessions to the vendors of RST which is under way at the report date.

On February 27, 2008 Great Western closed a private placement consisting of 8,000,000 flow-through shares priced at \$0.25 per share for gross proceeds of \$2,000,000.

In June 2008 Vaaldiam completed a non-brokered private placement at a premium issue price and was granted a revolving line of credit of US\$2,500,000 in return for the granting of diamond marketing rights on future Brazil based production other than from the Chapada mine. The amount of US\$2,500,000 of the line of credit was drawn down as of September 30, 2008. The non-brokered private placement financing involved the issuance of 7,277,429 common shares at a premium price of \$0.35 per share for total proceeds of US\$2,500,000.

On August 13, 2008 Vaaldiam filed a prospectus relating to a rights issue whereby each Company shareholder received one right per share. Under the offering, which expired on September 17, 2008, each two rights entitled the holder to acquire one Vaaldiam share at \$0.15. Assuming all the rights were exercised, the net proceeds from the rights issue would have been approximately \$16.2 million. Due to weak equity markets, Vaaldiam's share price traded below the rights exercise price throughout the subscription period as a result of which gross proceeds of only \$106,340 were raised.

Following the expiry of the rights issue, on September 22, 2008 Vaaldiam engaged an investment bank to assist Vaaldiam in securing up to \$20,000,000 of debt financing on a best efforts basis; however, due to deteriorating market conditions, this debt was not proceeded with.

On October 14, 2008 Vaaldiam closed a private placement of 12,500,000 flow-through shares at \$0.06 per share for proceeds of \$750,000 and 7,500,000 non flow-through shares at \$0.04 per share for proceeds of \$300,000.

On January 16, 2009 a total of 22,326,069 warrants, representing all of its outstanding warrants not held by insiders on that date, were repriced at \$0.08. The existing expiry dates and other conditions remain unchanged.

On February 18, 2009 a total of 8,500,000 stock options were granted to directors, officers, consultants and employees of the Company, each option of which entitles the holder to purchase one common share of the Company at a price of \$0.05 per share, to expire on February 18, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

An extrajudicial recovery plan (the "Plan") was approved by MMC's creditors representing 68% of MMC's debts outstanding, and on February 2, 2009 (the "Date of Acceptance"), application was made to the Civil Court in Brazil for the approval of the Plan, which would bind all creditors of MMC. The Plan would be valid for a period of 120 days from the court's approval and would apply to all invoices issued prior to the Date of Acceptance. Under the Plan, all action of the creditors against MMC would be stayed, and MMC would commit to allocating a portion of the proceeds from the sale of certain major assets as well as from financing to the repayment of such creditors. As at March 27, 2009, the Plan is awaiting final court approval.

Vaaldiam is dependent on the junior mining equity and debt capital markets and the exercise of outstanding warrants and options for the provision of operating capital. The availability of capital to the Company is dependent on stock market performance for junior mining stocks in general, diamond exploration stocks and Vaaldiam's stock in particular, exploration successes or the lack thereof, the degree to which investors view a new initiative as positive or negative for the Company, significant world financial and socioeconomic events, recent discoveries of magnitude by peer companies and the general willingness of brokerage houses to assist the Company in the raising of funds. There is no certainty that funding will be available to Vaaldiam when required.

Vaaldiam is endeavouring to raise additional capital through the sale of non-strategic assets, the raising of debt and the issuance of common shares notwithstanding the depressed equity market. Should Vaaldiam not be successful in raising additional capital, it may not be possible for the Company to continue as a going concern. There is no certainty that additional capital will be obtained.

Capital Resources

As at March 27, 2009, Vaaldiam had cash of approximately \$0.5 million and a revolving line of credit of US\$2,500,000 which has been drawn in full.

A potential source of additional capital would be the exercise of options. As at March 27, 2009, the Company had issued the following unexercised options:

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
375,000	September 20, 2009	\$0.45	168,750
208,000	November 30, 2009	\$0.50	104,000
650,000	November 30, 2009	\$0.58	377,000
650,000	November 30, 2009	\$0.91	591,500
40,000	December 14, 2009	\$0.40	16,000
234,000	December 31, 2009	\$0.99	231,660
55,000	May 10, 2010	\$0.50	27,500
100,000	August 4, 2010	\$0.85	85,000
180,000	November 8, 2010	\$0.84	151,200
1,580,000	January 16, 2011	\$0.75	1,185,000
75,000	April 18, 2011	\$1.37	102,750
50,000	June 9, 2011	\$0.97	48,500
146,250	August 25, 2011	\$1.44	210,600
112,500	December 27, 2011	\$0.95	106,875
2,025,000	January 24, 2012	\$0.85	1,721,250
180,000	February 23, 2012	\$1.02	183,600
393,750	April 2, 2012	\$0.95	374,063
5,495,000	February 26, 2013	\$0.45	2,472,750
200,000	August 7, 2013	\$0.17	34,000
8,500,000	February 18, 2014	\$0.05	425,000
21,249,500			\$8,616,998

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional potential source of capital could be the exercise of warrants and in January 2009 the Company re-priced the exercise price of these warrants, other than those held by any insider. As at March 27, 2009, the Company had issued the following unexercised warrants:

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
2,676,313	March 30, 2009	\$0.08	214,105
5,800,000	March 30, 2009	\$1.33	7,714,000
14,625,000	August 15, 2009	\$0.08	1,170,000
131,895	August 16, 2009	\$0.08	10,552
1,144,000	May 13, 2010	\$0.08	91,520
<u>24,377,208</u>			<u>\$9,200,177</u>

Vaaldiam is endeavouring to raise additional capital through the sale of non-strategic assets, the raising of debt and the issuance of common shares notwithstanding the depressed equity market. Should Vaaldiam not be successful in raising additional capital, it may not be possible for the Company to continue as a going concern. There is no certainty that additional capital will be obtained.

OFF-BALANCE SHEET ARRANGEMENTS

Under the terms of the Company's leases, the Company is committed to pay an amount of \$330,118 over a period of between 1 month to 25 months in respect of property leases in Canada and Brazil.

RELATED PARTY TRANSACTIONS

During 2004, the Company provided initially short-term interest free loans totaling 212,790 to four directors to acquire units as part of a private placement of the Company's shares. The term of these loans was subsequently extended, so that the loans were repayable in full on or before June 30, 2006. In addition, during 2005, a short-term interest free loan, repayable on or before June 30, 2006, was granted to a director and officer to acquire common shares of Vaaldiam in the amount of \$20,494. Effective January 1, 2006, all unpaid share purchase loans to directors bear interest at Canadian prime rate plus 3%. During 2006, all directors' loans relating to the purchase of shares, except for one loan of \$100,000, were repaid in full plus interest. The remaining loan of \$100,000, together with interest thereon was repaid on March 16, 2007.

In May 2006, a loan bearing interest at the Canadian prime rate plus 3%, repayable on demand in the amount of \$40,000, was granted to an officer and director and was repaid with interest thereon on December 20, 2007.

During 2007 an amount of approximately \$40,729 was paid to a company owned by a significant shareholder for accounting and administrative services provided to the Company's Brazilian subsidiaries during 2006.

On January 2, 2008, Vaaldiam took up 82,535,960 Great Western shares and paid for these shares by the issuance of 37,141,180 Vaaldiam shares in accordance with Vaaldiam's offer to purchase of November 7, 2007. Included in the 82,535,960 Great Western shares taken up were 28,177,778 shares owned by Zoneplan Limited ("Zoneplan") and 5,900,000 shares held by Mr. Peter Marrone who was then a director and Chairman of the Corporation. As a result of tendering their Great Western shares to the Vaaldiam offer, Zoneplan received 12,680,000 Vaaldiam shares while Mr. Marrone received 2,655,000 Vaaldiam shares. Zoneplan is a wholly-owned subsidiary of SEMC which indirectly beneficially owns approximately 18.3% of Vaaldiam's issued and outstanding shares and is Vaaldiam's largest shareholder.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On March 10, 2008, Vaaldiam took up the remaining Great Western issued and outstanding common shares which it did not own as a result of which Great Western became a wholly-owned subsidiary of Vaaldiam. As at that date all unexercised warrants and options of Great Western became exercisable into Vaaldiam shares. As of March 10, 2008 Zoneplan owned 14,088,889 warrants of Great Western which if exercised would result in the issuance of 6,340,000 additional Vaaldiam shares to Zoneplan. As of March 10, 2008, Mr. Peter Marrone owned 2,244,445 warrants of Great Western which if exercised would result in the issuance of 1,010,000 additional Vaaldiam shares to Mr. Marrone. The warrants owned by Zoneplan and Mr. Marrone were exercisable at \$1.33 per Vaaldiam share on or before March 30, 2009. These warrants were not subject to the January 2009 re-pricing, and lapsed unexercised on March 30, 2009.

In July 2008, the Company acquired rights to a mineral property adjacent to the Braúna property in Nordestina in the state of Bahia, Brazil. These were acquired from Mineração Monte Alegre Ltda., a company associated with a significant shareholder, in return for a 5% royalty on gross sales from diamond production from the property.

During the year ended December 31, 2008 a total of \$377,290 was paid as consulting fees to a company controlled by Mr. Sam Randazzo and Mr. Donald Best, the then Vice Presidents of Business Development and Technical Services, respectively. In November 2008, their consulting arrangement expired. Mr. Randazzo remains a director of Vaaldiam.

PROPOSED TRANSACTIONS

On a continuous basis, the Company reviews additional exploration properties with a view to their acquisition for exploration and development and other diamond companies with the view to merger or acquisition. From time to time the Company pursues opportunities to restructure its ownership in its existing properties where this is deemed advantageous.

SENIOR MANAGEMENT

Kenneth Johnson, the President and Chief Executive Officer of Vaaldiam has temporarily assumed the additional title of Chairman following the resignation of Mr. Peter Marrone as a director and Chairman who resigned due to personal commitments and availability. During the year ended December 31, 2008, Mr. Juvenal Mesquita resigned as director of the Company due to other personal commitments.

MANAGEMENT REPORTING**Management's Responsibility for Consolidated Financial Statements**

The accompanying audited consolidated financial statements of the Company are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information reflected in this Management's Discussion and Analysis is consistent with these financial statements.

The Company's Board of Directors has approved the information contained in the audited consolidated financial statements and this Management's Discussion and Analysis. The Board of Directors fills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate which complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2008 the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in

MANAGEMENT'S DISCUSSION AND ANALYSIS

providing reasonable assurance in ensuring that information relating to the Company and its consolidated subsidiaries which is required to be disclosed in reports filed under relevant securities legislation is recorded, summarized and reported within the time periods specified by such legislation, and that the information is accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have evaluated the internal control procedures in existence as of December 31, 2008, and concluded that the Company's internal controls over financial reporting have been effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). During the year ended December 31, 2008, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Under the accounting rules used by Vaaldiam, the fair value of stock based compensation (option grants) is expensed for income statement purposes. The determination of fair value of options granted is generally provided by the Black-Scholes formula. Some of the parameters used in this formula are highly subjective, in particular the assumption of future price volatility. In addition, using the Black-Scholes model assumes that a satisfactory active market for the options exists whereas ownership of the options granted by Vaaldiam cannot be transferred under the rules of the Toronto Stock Exchange and the Company's Stock Option Plan. During the year ended December 31, 2008, \$1,525,335 was expensed as the cost of options issued under the Company's Stock Option Plan, while \$328,194 was capitalized into projects.

The assumed recoverability of the carrying value of mineral properties and property, plant and equipment is dependent on the assumed discovery of economically recoverable reserves, the assumed ability of the Company to obtain financing or other means to complete development of the properties and assumed future profitable production or proceeds from the disposition of the properties. The fair value of these items is subjective and is based on management's best estimate incorporating the use of internal and external expertise. The Company completed an impairment test as December 31, 2008 and determined that certain of its assets were impaired resulting in a write-down of \$116,496,767. As at December 31, 2008, mineral properties were carried at \$21,692,871 and property, plant and equipment was carried at \$7,016,182 on the Company's balance sheet.

The preliminary allocation of the purchase prices for business acquisitions were based on internal management valuations and anticipated tax basis elections. The purchase prices allocation may change upon final determination of the fair value of assets acquired and liabilities assumed. The impact of any final adjustments may be material and will be recorded on a prospective basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Vaaldiam's accounts are stated using Canadian GAAP. The Company's accounting policies have changed during 2008 as outlined below and no future changes are contemplated except as may be required to conform to future changes in Canadian GAAP.

(a) Changes in accounting policies:

(i) Revenue Recognition

Revenue from the sale of gold produced as a by-product is recognized as a separate revenue stream at the time when the goods are received by the customer. This was changed from the previous year's policy of recognizing the sale of by-product as a reduction in cost of sales. This change has no impact on the prior year's financial statements as there was no sale of gold in the prior year.

(ii) Deferred Stripping Cost

Stripping costs incurred in the production phase to provide access to mineral resources are capitalized as incurred and amortized to the cost of production on a unit-of-production basis as the mineral is extracted. Previously, these were not recorded. This change has no material impact on the prior year's financial statements as there were no significant pre-stripping activities in the prior year.

(b) New Accounting Pronouncements:

(i) Financial Instruments – Disclosure (Section 3862) and Financial Instruments – Presentation (Section 3863)

Section 3862 replaces the disclosure portion of Section 3861, Financial Instruments – Disclosure and Presentation, and enhances the disclosure requirements on the nature and extent of risks arising from financial instruments, and how these risks are managed. Section 3863 carries forward the presentation requirements from Section 3861. Effective January 1, 2008, the Company adopted these standards. Beyond additional disclosures, the adoption of these new pronouncements did not have an effect on the Company's financial position or results of operations.

(ii) Capital Disclosures (Section 1535)

Section 1535 establishes standards for disclosure qualitative and quantitative information about an entity's capital and how it is managed in order to enable users of its financial statements to evaluate the entity's objectives, policies and processes of managing capital. Effective January 1, 2008, the Company adopted these standards. Beyond additional disclosures, the adoption of these standards did not have an effect on the Company's financial position or results of operations.

(iii) General Standards of Financial Statement Presentation (Section 1400)

The amendment to this section provides revised guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Effective January 1, 2008, the Company adopted the amendment to this section. Beyond additional disclosure, the adoption of this amendment did not have an effect on the Company's financial position or results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS**(iv) Goodwill and Intangible Assets (Section 3064)**

Effective January 1, 2009, the Company will adopt Section 3064. Section 3064 provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The Company is currently evaluating the effect of adopting this standard.

(vi) Credit Risk and the Fair Value of Financial Assets and Liabilities ("EIC-173")

In January 2009, the Emerging Issues Committee ("EIC") issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The Company is currently evaluating the effect of adopting this standard.

(c) Accounting Standards:**(i) International Financial Reporting Standards**

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. In 2009, the Company will establish a project plan with definite milestones for the transition. At this time, the impact on the financial statements has not been reasonably determined.

NON-GAAP MEASURE

Throughout this document, measures prepared according to Canadian GAAP have been provided, as well as a non-GAAP performance measure as these are used by some investors to evaluate the Company's performance. The Company believes that conventional measures of performance prepared in accordance with Canadian GAAP do not fully illustrate the ability of its operating mines to generate cash flow. As the non-GAAP performance measure do not have any standardized meaning prescribed by GAAP, it may not be comparable to similar measures presented by other companies. Accordingly, it is intended to provide additional information which should not be considered in isolation or as a substitute for performance measure prepared in accordance with Canadian GAAP. The Company uses the financial measure "cash based operating profit (or loss)" to supplement information in its consolidated financial statements. Cash based operating profit (or loss) is calculated as net operating profit (or loss) excluding amortization.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at December 31, 2008, the Company had cash and cash-equivalent of \$1,130,496. Vaaldiam has never invested in asset backed commercial paper.

VAALDIAM RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTSTANDING SHARE DATA

As at March 27, 2009, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at December 31, 2007	168,073,761
Shares issued to date to acquire Great Western	45,694,837
Shares issued to acquire the Três Marias property	234,023
Shares issued in non-brokered private placements	27,277,429
Shares issued to acquire RST	3,374,185
Rights Issue	708,933
Shares cancelled	(310,500)
Common shares outstanding as at December 31, 2008	245,052,668
Shares issuable on exercise of options	21,249,500
Shares issuable on exercise of warrants	24,377,208
Fully diluted shares outstanding as at March 27, 2009	290,679,376

AUDITORS' REPORT

To the Shareholders of
Vaaldiam Resources Ltd.

We have audited the consolidated balance sheets of Vaaldiam Resources Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 27, 2009
Toronto, Canada

(signed)
Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

VAALDIAM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

[See nature of operations and going concern uncertainty (Note 1)]

	Notes	2008	2007
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 480,197	\$ 10,928,569
Restricted cash	22	650,299	-
Sundry receivables and prepayments		188,864	328,926
Inventories	4	122,034	2,406,024
Brazilian taxes and contributions recoverable	5	59,262	262,449
Discontinued operations	9	255,424	-
		1,756,080	13,925,968
Property, plant and equipment	6, 8	7,016,182	10,455,555
Assets under construction		1,312,304	-
Mineral properties	7, 8	21,692,871	97,547,162
Brazilian taxes and contributions recoverable	5	394,953	807,145
Investments	10	-	250,000
Other assets		13,680	267,994
Discontinued operations	9	10,422,514	-
		\$ 42,608,584	\$ 123,253,824
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Line of credit	11	\$ 3,061,500	\$ -
Accounts payable and accrued liabilities		4,167,574	2,076,522
Discontinued operations:			
Payable in respect of RST acquisition	3, 9	10,409,100	-
Accounts payable and accrued liabilities	9	791,124	-
		18,429,298	2,076,522
Asset retirement obligations	12	410,298	377,387
Future income tax liabilities	13	147,271	25,856,571
Shareholders' Equity			
Common shares	14(a)	127,059,075	98,329,103
Common share purchase warrants	14(b)	3,180,053	3,652,732
Stock options	14(c)	4,975,888	3,786,319
Contributed surplus	14(d)	1,883,176	277,333
Deficit		(113,476,475)	(10,852,143)
Accumulated other comprehensive loss	14(e)	-	(250,000)
		23,621,717	94,943,344
		\$ 42,608,584	\$ 123,253,824

Subsequent Events (Note 24)

Commitments and contingencies (Note 23)

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:



Director



Director

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	Notes	2008	2007
Net sales		\$ 7,602,941	\$ 1,399,303
Cost of sales		10,457,014	927,940
Mine infrastructure and administration		4,787,157	855,985
Mine operating loss	20	(7,641,230)	(384,622)
Corporate and general		3,627,641	2,627,591
Stock-based compensation	14(c)	1,525,335	1,495,325
Amortization		401,285	340,752
		(13,195,491)	(4,848,290)
Foreign exchange (loss) gain		(2,983,937)	249,223
Interest income		93,264	345,716
Interest expense		(65,243)	-
Financing costs		(404,060)	-
Provision for Brazilian taxes and contributions recoverable	5	(839,297)	-
Loss on disposal of property, plant and equipment		(124,821)	-
Write-down of properties	8	(116,496,767)	(1,650,901)
Loss before income taxes and minority interest		(134,016,352)	(5,904,252)
Income tax recovery	13	31,910,153	460,460
Minority interest		-	(598)
Loss from continuing operations		(102,106,199)	(5,444,390)
Loss from discontinued operations	9	(518,133)	-
Net loss for the year		(102,624,332)	(5,444,390)
Deficit, beginning of year		(10,852,143)	(5,407,753)
Deficit, end of year		\$ (113,476,475)	\$ (10,852,143)
Basic and diluted loss per common share:			
From continuing operations	19	\$ (0.46)	\$ (0.06)
From discontinued operations	19	-	-
		\$ (0.46)	\$ (0.06)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2008	2007
Net loss for the year		\$ (102,624,332)	\$ (5,444,390)
Other comprehensive income:			
Unrealized loss on investments	10	-	(250,000)
Reversal of unrealized loss on investments	3, 10	250,000	-
Other comprehensive income (loss)		250,000	(250,000)
Comprehensive loss for the year		\$ (102,374,332)	\$ (5,694,390)

See accompanying notes to consolidated financial statements.

VAALDIAM RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2008	2007
Operating Activities			
Net loss from continuing operations for the year		\$ (102,106,199)	\$ (5,444,390)
Amortization and depreciation		2,744,647	515,238
Accretion expense	12	33,281	6,664
Provision for Brazilian taxes and contributions recoverable	5	839,297	-
Loss on disposal of property, plant and equipment		124,821	-
Write-down of properties	8	116,496,767	1,650,901
Stock-based compensation	14(c)	1,525,335	1,495,325
Unrealized foreign exchange (gain) loss		2,171,870	(271,981)
Future income tax recovery	13	(31,910,153)	(460,460)
Minority interest		-	598
		(10,080,334)	(2,508,105)
Change in non-cash components of working capital:			
Decrease (increase) in sundry receivables and prepayments		517,744	(39,547)
(Increase) in sales taxes recoverable		(223,918)	(1,069,594)
Decrease (increase) in inventories		1,867,658	(1,403,247)
(Decrease) increase in accounts payable and accrued liabilities		(1,057,052)	334,280
Cash used in operating activities		(8,975,902)	(4,686,213)
Investing Activities			
Purchase of property, plant and equipment		(552,639)	(1,793,654)
Proceeds on disposal of property, plant and equipment		724,168	-
Mineral exploration expenditures		(7,547,754)	(7,617,920)
Restricted cash		3,211,190	429,300
Increase in deferred stripping costs		(1,080,676)	-
Acquisition of Elkedra	3	(81,124)	(2,159,746)
Acquisition of Great Western	3	(965,702)	(500,000)
Acquisition of Cajueiro	3	-	(2,266,425)
Acquisition of Três Marias	14(vi)	(100,000)	-
Acquisition of RST	3	(528,149)	-
Decrease (increase) in other assets		91,417	(90,938)
Cash used in investing activities		(6,829,269)	(13,999,383)
Financing Activities			
Increase in line of credit	11	2,588,800	-
Repayment of long-term debt	3	-	(7,198,482)
Proceeds from issuance of common shares (net of share issue costs)	14(a)	2,993,419	24,493,864
Repurchase of common shares	14(a)	(86,462)	-
Cash provided by financing activities		5,495,757	17,295,382
Cash used in discontinued operations	9	(138,958)	-
Net change in cash and cash equivalents		(10,448,372)	(1,390,214)
Cash and cash equivalents, beginning of year		10,928,569	12,318,783
Cash and cash equivalents, end of year		\$ 480,197	\$ 10,928,569
Cash and cash equivalents are comprised of the following:			
Cash		\$ 480,197	\$ 2,982,857
Short-term investments		-	7,945,712
		\$ 480,197	\$ 10,928,569

Supplementary cash flow information (Note 21)

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

Vaaldiam Resources Ltd. (a development stage entity until September 1, 2007) (the “Company” or “Vaaldiam”) is a publicly held company incorporated under the Canada Business Corporations Act. The Company is engaged in mining operations and in the investigation, acquisition, exploration and development of mineral properties. The Company operates in Brazil through its Duas Barras mine in the state of Minas Gerais and its Chapada mine in the state of Mato Grosso. Substantially all of the efforts of the Company are devoted to these business activities.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2008 the Company had no sources of operating cash flows as a result of its decision to place its Duas Barras and Chapada mines on care and maintenance until such time as diamond prices recover to a level that would allow for positive cash flows from operations. The Company will therefore require additional funding which, if not raised, would result in the further curtailment of activities and project delays. Vaaldiam had a working capital deficit of \$16,673,218 as at December 31, 2008, and had incurred losses since inception resulting in an accumulated operating deficit of \$113,476,475 as at December 31, 2008. The Company’s ability to continue as a going concern is uncertain and is dependent upon its ability to continue to raise adequate financing and to recommence profitable operations in the future. There can be no assurances that the Company will be successful in this regard, and therefore, there is substantial doubt regarding the Company’s ability to continue as a going concern, and accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the “going concern” assumption were not appropriate. If the “going concern” assumption were not appropriate for these consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications, which could be material, would be necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“CGAAP”) on a going concern basis. The significant accounting policies are as follows:

(a) Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

- Vaaldiam do Brasil Mineração Ltda. (“VBM”);
- Mineração Montes Claros Ltda. (“Montes Claros” or “MMC”);
- Elkedra Diamonds Pty Ltd. (formerly Elkedra Diamonds N.L.) (“Elkedra”);
- Chapada Diamonds Limited (“CDL”);
- Chapada Brasil Mineração Ltda. (“CBM”);
- Great Western Diamonds Corp. (“Great Western”);
- Oleander Financial Inc. (“Oleander”);
- Mineração Fortuna Ltda. (“Fortuna”); and
- RST Recursos Mineraiis Ltda. (“RST”).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All inter-company balances and transactions have been eliminated on consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with CGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, particularly mineral properties, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas that require the use of estimates include the assessment of valuation and impairment of long-lived assets, estimation of the asset retirement obligations, valuation of inventories, valuation of stock-based compensation and the determination of the existence and measurement of tax assets and related valuation allowances. Actual results could differ from those estimates.

(c) Foreign Currency Translation

The Company's foreign subsidiaries are operationally and financially dependent on the parent company and, as such, are considered to be integrated operations for accounting purposes and are translated using the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the historical rate of exchange. Revenues and expenses, other than depreciation and amortization, are translated into Canadian dollars at the average exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the consolidated statements of operations and deficit.

(d) Cash and Cash Equivalents

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

(e) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined on an average cost basis including direct and indirect mining and processing costs and the amortization of mining assets and deferred mine exploration and development costs.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized over the useful life of the assets as follows:

Plant and mining equipment	Unit of production basis over indicated mineral resources
Vehicles	- 30%, declining balance basis
Leasehold improvements	- 30%, declining balance basis
Exploration and other equipment	- 30%, declining balance basis
Furniture and fixtures	- 20%, declining balance basis
Computers	- 30%, declining balance basis

Assets under construction are recorded at cost and are transferred to property, plant and equipment together in the case of projects with any pre-production revenues at the commencement of commercial production.

(g) Mineral Properties and Deferred Exploration Expenditures

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time they will be amortized on a unit-of-production basis based on total indicated mineral resources, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge would be made.

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

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

(h) Long-Lived Assets

The carrying values of long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value. Mineral properties are written off (i.e. the carrying amount reduced to nil) if the property's rights are allowed to lapse or if the property is or is intended to be abandoned.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments

Cash and cash equivalents, and restricted cash are classified as held-for-trading and are carried at fair values on the consolidated balance sheets. Accounts receivable are designated as loans receivable, and accounts payable, accrued liabilities and line of credit are designated as other financial liabilities. The carrying amount of these items approximates fair value due to the short-term nature of these financial instruments.

Investments in securities that the Company does not have significant influence over are classified as available-for-sale investments and are recorded on the consolidated balance sheets at fair value, to the extent that the equity investment has a quoted market price. Unrealized gains and losses are recorded in other comprehensive income or loss. Realized gains and losses are recorded in the consolidated statements of operations and deficit when the investment is sold. An impairment loss is recorded in the consolidated statements of operations and deficit to the extent that any unrealized declines in fair value are judged to be other than temporary.

(j) Revenue Recognition

Revenue from the sale of rough diamonds is recognized when title transfers and the rights and obligations of ownership pass to the purchaser, which generally occurs when the goods are received by the customer. It is at this point that the purchase price is agreed, delivery has occurred, and all significant acts have been completed. Revenue from the sale of gold produced as a by-product is recognized as a separate revenue stream at the time the goods are received by the customer. Previously, the Company recognized the sale of by-product as a reduction in cost of sales. This change has no impact on the prior year's consolidated financial statements as there was no sale of gold in the prior year.

(k) Stock-based Compensation

The Company has a stock-based compensation plan, which is described in Note 14(c). The Company accounts for all stock-based payments using the fair value method, calculated based on the Black-Scholes option valuation model. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized over the option vesting period. Options normally vest on the date of grant under Company policy and the fair value of these options is recognized on that date.

(l) Asset Retirement Obligations

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Future Income Taxes**

The Company uses the liability method of accounting for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates and laws expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(n) Flow-Through Common Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issuance of such shares have been credited to share capital and the related exploration costs are deferred to exploration properties when incurred. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation..

(o) Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants, with average market prices for the year greater than their exercise prices, were exercised and the proceeds used to repurchase common shares.

(p) Deferred Stripping Costs

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New Accounting Pronouncements:

- (i) Financial Instruments – Disclosures (“Section 3862”) and Financial Instruments – Presentation (“Section 3863”)

Effective January 1, 2008, the Company adopted Section 3862 and Section 3863. Section 3862 replaces the disclosure portion of Section 3861, Financial Instruments – Disclosure and Presentation, and enhances the disclosure requirements on the nature and extent of risks arising from financial instruments, and how these risks are managed. Section 3863 carries forward the presentation requirements from Section 3861. Beyond additional disclosures, the adoption of these new pronouncements did not have an effect on the Company’s financial position or results of operations. The new disclosures are included in Note 17.

- (ii) Capital Disclosures (“Section 1535”)

Effective January 1, 2008, the Company adopted Section 1535. This section establishes standards for disclosure of qualitative and quantitative information about an entity’s capital and how it is managed in order to enable users of its financial statements to evaluate the entity’s objectives, policies and processes of managing capital. Beyond additional disclosures, the adoption of these standards did not have an effect on the Company’s financial position or results of operations. The new disclosures are included in Note 16.

- (iii) General Standards of Financial Statement Presentation (“Section 1400”)

Effective January 1, 2008, the Company adopted the amendment to Section 1400. The amendment to this section provides revised guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern. Beyond additional disclosure, the adoption of this amendment did not have an effect on the Company’s financial position or results of operations. The new disclosures are included in Note 1.

- (iv) International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is assessing the impact of the conversion from CGAAP to IFRS on the consolidated financial statements and will develop a conversion implementation plan.

- (v) Goodwill and Intangible Assets (“Section 3064”)

Effective January 1, 2009, the Company will adopt Section 3064. Section 3064 provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The Company is currently evaluating the effect of adopting this standard.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Credit Risk and the Fair Value of Financial Assets and Liabilities (“EIC-173”)

In January 2009 the Emerging Issues Committee (“EIC”) issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The Company is currently evaluating the effect of adopting this standard.

3. ACQUISITIONS

Acquisitions are accounted for using the purchase method, whereby identifiable assets and liabilities are recorded at their fair market values as of the date of acquisition.

GREAT WESTERN DIAMONDS CORP.

On January 2, 2008, pursuant to a takeover bid to acquire all of the outstanding shares of diamond explorer Great Western, a company then listed on the TSX Venture Exchange, the Company took up 82,535,960 Great Western shares in exchange for 37,141,180 Vaaldiam shares at the takeover bid exchange ratio of 0.45 of a Vaaldiam common share per Great Western common share. The Company then proceeded to effect a subsequent acquisition transaction to acquire Great Western shares not tendered to the offer.

A Great Western Shareholder Special Meeting was held on February 27, 2008 and a resolution passed approving the arrangement whereby Vaaldiam will acquire the issued share capital of Great Western which it did not already own, and an additional 8,553,657 shares were issued. A final order was obtained from the Court of Queen’s Bench for Saskatchewan on March 6, 2008, the arrangement became effective on March 10, 2008 and Great Western was delisted on March 11, 2008.

On February 27, 2008, Great Western closed a private placement consisting of 8,000,000 flow-through shares priced at \$0.25 for aggregate gross proceeds of \$2,000,000. The agent received a cash commission of 7.5% of the gross proceeds as well as 600,000 broker warrants, each entitling the agent to acquire one common share of Great Western at a price of \$0.25 until February 27, 2009.

The purchase price was calculated as follows:

Common shares issued	
(45,694,837 common shares at average cost of \$0.5306 per share)	\$ 24,247,529
Fair value of 14,949,030 warrants and options issued	461,930
Cash paid for 1,111,112 Great Western shares	500,000
Transaction costs	885,792
Purchase price	\$ 26,095,251

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

3. ACQUISITIONS (CONTINUED)

The fair values of the warrants and options were estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	3.1%-3.35%
Expected dividend yield	0.00%
Expected share price volatility	44.3%-63.0%
Expected life of warrants and options	0.3-4.1 years

The purchase price was allocated as follows:

Restricted cash acquired	\$ 3,111,489
Non-cash working capital deficit	(876,346)
Property, plant and equipment	204,878
Mineral properties	29,588,048
Future income taxes	(5,932,818)
Net identifiable assets	\$ 26,095,251

RST RECURSOS MINERAIS LTDA.

On July 1, 2008, the Company entered into an agreement with Thanda Vantu – Investimentos E Participações SGPS, S.A. (“Thanda”), Redburn Investments Inc. (“Redburn”), Marrakwene Holding, Investimentos E Participações, Ltda. (“Marrakwene”) and Geraldo Antonio Kulaif (“Geraldo”) to acquire 100% ownership of RST and to acquire the outstanding RST loans from Marrakwene and Redburn. RST owns the Peçanha mine and concessions adjacent to the Duas Barras mine in the state of Minas Gerais, Brazil.

The purchase price for the acquisition was as follows:

- US\$1,500,000 less US\$330,000 representing agreed liabilities of RST at July 1, 2008 paid in common shares of the Company; and
- US\$9,000,000 less approximately US\$1,400,000 representing certain payables of RST at July 1, 2008.

On July 1, 2008, the Company made a payment consisting of 3,374,185 common shares and cash of US\$500,000. A balance of approximately US\$8,500,000 consisting of the remaining US\$7,100,000 of cash due to Marrakwene and Redburn and approximately US\$1,400,000 due to an RST supplier remains unpaid at December 31, 2008.

Subsequent to December 31, 2008, the Company entered into a settlement agreement with respect to the unpaid balance of US\$8,500,000 (see Notes 9 and 24). The settlement agreement is still in the process of being finalized.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

3. ACQUISITIONS (CONTINUED)

The acquisition was recorded as a business combination. The purchase price was calculated as follows:

Common shares issued (3,374,185 common shares at cost of \$0.32 per share)	\$ 1,079,739
Cash	509,300
Payable	8,658,100
Transaction costs	56,280
Purchase price	\$ 10,303,419

The allocation of the purchase price is as follows:

Cash	\$ 37,431
Non-cash working capital deficit	(231,342)
Property, plant and equipment	7,189,542
Mineral properties	3,307,788
Net identifiable assets	\$ 10,303,419

CAJUEIRO MINERAÇÃO LTDA.

On March 1, 2007, the Company acquired the 40% share of Cajueiro Mineração Ltda. ("Cajueiro") that was owned by Majescor Resources Inc. ("Majescor"). As a result of the acquisition, the Company now owns 100% of Cajueiro, 40% directly, and the remaining through its subsidiary, VBM. A 1% royalty would be payable to Majescor on the proceeds from sale of diamonds mined from the Braúna property, net of diamond marketing costs.

The purchase price was calculated as follows:

Cash	\$ 2,000,000
Common shares issued (1,733,102 common shares at \$0.90 per share)	1,559,792
Transaction costs	266,425
Purchase price	\$ 3,826,217

The excess of purchase price over carrying value of the assets acquired was allocated to mineral properties. The purchase price was allocated as follows:

Net working capital acquired	\$ 13,123
Property, plant and equipment	1,390
Mineral properties	5,704,192
Long-term liabilities	(8,663)
Future income taxes	(1,883,825)
Net identifiable assets	\$ 3,826,217

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

3. ACQUISITIONS (CONTINUED)

ELKEDRA DIAMONDS N.L.

On November 20, 2007, the Company completed the acquisition of 100% of diamond producer Elkedra, a company then listed on the Australian Securities Exchange ("ASX") and London's Alternative Investment Market ("AIM"), and its Chapada mine, through a scheme of arrangement whereby each Elkedra shareholder received 0.52 of a Vaaldiam common share for each Elkedra common share. Elkedra was subsequently delisted from the ASX and the AIM in the same month.

The purchase price was calculated as follows:

Common shares issued (55,622,557 common shares at \$0.8771 per share)	\$ 48,788,708
Fair value of 6,309,334 warrants and options issued	1,135,316
Transaction costs	880,436
Purchase price	\$ 50,804,460

The fair values of the warrants and options were estimated using the Black-Scholes option pricing model based on the following assumptions:

Risk-free interest rate	4.22%
Expected dividend yield	0.00%
Expected share price volatility	42.3%-63.0%
Expected life of warrants and options	0.8-2.5 years

The purchase price was allocated as follows:

Cash acquired	\$ 215,974
Non-cash working capital deficit	(26,979)
Property, plant and equipment	7,356,827
Mineral properties	75,481,267
Long-term debt	(8,771,848)
Future income taxes	(23,450,781)
Net identifiable assets	\$ 50,804,460

The allocation of the purchase price was based on internal management valuations.

In December 2007, following the acquisition of Elkedra, the Company repaid the outstanding long-term debt of A\$8,000,000 and interest thereon owing by Elkedra to LinQ Capital Limited with a fixed and floating charge over Elkedra's assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

4. INVENTORIES

Inventories as at December 31, 2008 included rough diamonds, work in progress, as well as supplies inventory. Work in progress includes gold and diamond concentrates. Gold concentrates represent materials that are diverted to the gold circuit to be converted to a saleable form, while diamond concentrates represent materials that will be further sorted to extract rough diamonds.

As at December 31	2008		2007	
Rough diamonds	\$	43,689	\$	1,731,903
Diamond and gold concentrates		-		421,507
Supplies inventory		78,345		252,614
	\$	122,034	\$	2,406,024

During the year ended December 31, 2008, a total of \$10,945,390 of inventory was expensed through Cost of Sales.

5. BRAZILIAN TAXES AND CONTRIBUTIONS RECOVERABLE

Brazilian taxes and contributions recoverable consist of recoverable credits for ICMS, PIS and COFINS. ICMS is the State Value Added Tax imposed by the individual states in Brazil. PIS and COFINS are Federal Contributions for the purposes of social financing. An ICMS taxpayer may recover input tax charged on certain goods and services and PIS and COFINS taxpayers may recover input contributions charged on certain good and services. The charges that are recoverable are in respect of purchases made for the purpose of manufacturing or production of supplies, and can be recovered, amongst other methods, as a deduction from output tax charged on the goods sold, and in the case of PIS and COFINS, can be set off against federal withholding taxes and income taxes. At December 31, 2008, a provision of \$1,664,899 had been made against these taxes and contributions, as it is not certain that these amounts will be recovered due to the cessation of the Company's production activity.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

6. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Plant and mining equipment	\$ 6,064,004	\$ 630,877	\$ 5,433,127
Leasehold improvements	367,714	103,677	264,037
Exploration and other equipment	1,495,957	577,715	918,242
Vehicles	390,224	261,919	128,305
Furniture and fixtures	182,776	59,699	123,077
Computers	271,569	122,175	149,394
	\$ 8,772,244	\$ 1,756,062	\$ 7,016,182

As at December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Plant and mining equipment	\$ 8,964,446	\$ 170,248	\$ 8,794,198
Leasehold improvements	186,566	45,431	141,135
Exploration and other equipment	1,056,113	302,308	753,805
Vehicles	676,706	173,458	503,248
Furniture and fixtures	147,697	31,996	115,701
Computers	209,474	62,006	147,468
	\$ 11,241,002	\$ 785,447	\$ 10,455,555

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

7. MINERAL PROPERTIES

	January 1, 2008	Activity	Write-down	December 31, 2008
Production properties				
Brazil				
Duas Barras				
Cost	\$ 7,593,940	\$ 512,661	\$ (4,903,076)	\$ 3,203,525
Amortization	(586,630)	(586,364)	-	(1,172,994)
	7,007,310	(73,703)	(4,903,076)	2,030,531
Chapada				
Cost	8,364,189	152,302	(8,516,491)	-
Amortization	(38,852)	(360,767)	399,619	-
	8,325,337	(208,465)	(8,116,872)	-
Exploration properties				
Brazil				
Chapada Exploration Area	67,093,630	256,120	(64,477,838)	2,871,912
Braúna	9,876,315	1,199,759	-	11,076,074
Ariquemés	-	15,991,083	(15,991,083)	-
Pimenta Bueno Property	5,070,840	612,299	(5,683,139)	-
Três Marias	-	342,118	(342,118)	-
Other	-	44,430	(35,165)	9,265
	82,040,785	18,445,809	(86,529,343)	13,957,251
Canada				
Candle Lake	-	16,181,408	(11,167,791)	5,013,617
Centennial	-	564,168	(377,994)	186,174
Snowden	-	682,683	(457,399)	225,284
Alberta Area Properties	173,730	607,779	(501,495)	280,014
	173,730	18,036,038	(12,504,679)	5,705,089
Total Production Properties	15,332,647	(282,168)	(13,019,948)	2,030,531
Total Exploration Properties	82,214,515	36,481,847	(99,034,022)	19,662,340
Total Mineral Properties	\$ 97,547,162	\$ 36,199,679	\$ (112,053,970)	\$ 21,692,871

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

7. MINERAL PROPERTIES (CONTINUED)

	January 1, 2007	Activity	Write-down	December 31, 2007
Production properties				
Brazil				
Duas Barras				
Cost	\$ 3,400,302	\$ 4,193,638	\$ -	\$ 7,593,940
Amortization	-	(586,630)	-	(586,630)
	3,400,302	3,607,008	-	7,007,310
Chapada				
Cost	-	8,364,189	-	8,364,189
Amortization	-	(38,852)	-	(38,852)
	-	8,325,337	-	8,325,337
Exploration properties				
Brazil				
Chapada Exploration Area	-	67,093,630	-	67,093,630
Braúna	1,895,644	7,980,671	-	9,876,315
Pimenta Bueno	3,775,694	1,295,146	-	5,070,840
	5,671,338	76,369,447	-	82,040,785
Canada				
Coronation Gulf	1,396,460	254,441	(1,650,901)	-
Alberta Area Properties	-	173,730	-	173,730
	1,396,460	428,171	(1,650,901)	173,730
Total Production Properties	3,400,302	11,932,345	-	15,332,647
Total Exploration Properties	7,067,798	76,797,618	(1,650,901)	82,214,515
Total Mineral Properties	\$ 10,468,100	\$ 88,729,963	\$ (1,650,901)	\$ 97,547,162

BRAZILIAN PROPERTIES**Duas Barras**

The Duas Barras mine is an alluvial diamond deposit located 150 kilometres north of the town of Diamantina in the state of Minas Gerais, Brazil. The surface rights are owned by Mr, Geraldo Coelho Moura who receives a 6% royalty on gross sales revenue from the mine. The Mining Licence covers an area of 170.89 hectares along a five kilometre length of the Jequitinhonha River.

In February 2007, Mineração Marly Ltda. ("Marly") submitted an application for the assignment of the Duas Barras Mining Licence to Montes Claros, at which time the Company was required to pay US\$200,000 to Marly in respect of the acquisition of the final 25% interest in the Duas Barras property. In January 2008, following the sale of the first diamond production from Duas Barras, the Company made the final payment of US\$350,000 due to Marly to complete the acquisition of the final 25% interest in the property.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

7. MINERAL PROPERTIES (CONTINUED)

Commissioning of the Duas Barras mine commenced in May 2007. Commercial production commenced on September 1, 2007, after achieving physical project completion, a sustained level of mining and diamond processing activity, and the passage of a reasonable testing and commissioning period.

Gravel volume treated during the year ended December 31, 2008 amounted to 162,936 bank cubic metres ("bcm") resulting in the recovery of 15,389 carats of diamonds, a recovered grade of 0.09 cts per bcm, with an average weight per stone of 0.15 carats.

As a result of the deteriorating market conditions and declining diamond prices, the Company tested the mine for impairment as at September 30, 2008 and December 31, 2008. As a result of this review, the Company determined that the carrying amount would not be recoverable from mine operations under current market conditions and the carrying value was reduced to reflect management's estimate of its fair value.

Chapada

The Chapada mine is located in the state of Mato Grosso, about 80 kilometres north-east of the state capital of Cuiabá. The mine covers two tenements, Quilombo and Peba Lagoinha, over an area of 15 km², and contains a diamond recovery processing plant. The Chapada mine has been in production since June 2006. The Company acquired a 100% interest in the mine, together with the surrounding tenements, through the Elkedra acquisition in November 2007 (see Note 3).

During the six months ended June 30, 2008 the Chapada Mine processed 198,291 bcm of gravel, resulting in the recovery of 9,609 diamonds with a total weight of 4,803 carats, a recovery rate of 0.024 cts per bcm.

In July 2008, on expiry of the mining contract at Chapada, mining operations were suspended until such time that diamond prices recover to a level that would allow profitable operations. As of December 31, 2008, the mine had not resumed operations and is currently on care and maintenance.

As a result of the deteriorating market conditions, declining diamond prices and operating losses to date, the Company tested the mine for impairment as at September 30, 2008 and December 31, 2008. As a result of this review, the Company determined that mine operations would not result in sustainable cash flow under current market conditions and the full value of \$8,116,872 was written off.

In addition to the Chapada mine, the Company holds additional exploration licences surrounding the mine totaling 270 km². The Chapada exploration property was written down to \$2,871,912 at December 31, 2008 to reflect management's estimate of fair value.

Braúna

The Braúna property is located in the state of Bahia, Brazil and is comprised of three exploration concessions, covering an area of approximately 4,910 hectares. It encompasses 17 known kimberlite occurrences, consisting of four pipes associated with an extensive kimberlite dyke system. In addition to the main Braúna concessions, Vaaldiam holds, through its subsidiary VBM, a 1,400 hectare exploration licence covering the Aroeira kimberlite. The Aroeira kimberlite is located 50 kilometres to the west of the Braúna property.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

7. MINERAL PROPERTIES (CONTINUED)

In July 2008, the Company acquired four exploration concessions which expanded the Brauna property and closed up some gaps in the land package. The four new concessions were acquired from Mineração Monte Alegre, a Brazilian registered company which is controlled by Santa Elina Mines.

During the year ended December 31, 2008, a total of \$1,199,759 was spent on the Braúna project, including the Aroeira and Monte Alegre concessions, bringing total expenditures to \$11,076,074 at December 31, 2008.

Ariquemes

Vaaldiam acquired the Ariquemes Property on January 2, 2008 through the acquisition of Great Western (see Note 3). The Ariquemes Property is located in the state of Rondônia, some 200 kilometres to the east of the Pimenta Bueno Property.

As of December 31, 2008, the Company had relinquished its landholdings in the Ariquemes area. As a result, the Ariquemes Property has been written down by \$15,991,083 at December 31, 2008.

Pimenta Bueno

The Pimenta Bueno property, located in the southeastern part of the state of Rondônia, Brazil, consists of exploration permits and mining concessions in two blocks, covering an area of approximately 247,085 hectares in total. Exploration is being conducted for the discovery of diamond bearing kimberlites which can be economically developed.

In June 2007, Vaaldiam restructured its 2005 agreement with Rio Tinto Desenvolvidos Minerais Ltda. ("Rio Tinto") whereby Rio Tinto transferred operatorship and 100% ownership of the Southern Block of the Pimenta Bueno diamond project to Vaaldiam. Rio Tinto retained an option to back-in to a 60% interest in any kimberlite pipe that meets Rio Tinto's development criteria. In the event Rio Tinto decides to develop one of these kimberlite pipes it would complete and fully fund a feasibility study. Should the feasibility study meet its criteria and Rio Tinto decides to develop a mine, Rio Tinto would fully fund the construction of the mine and Vaaldiam would retain a 40% equity interest in cash flow from the mine after repayment of Vaaldiam's share of construction funding.

As of December 31, 2008, the Company had reduced its land holdings in the Pimenta Bueno area to less than 10 exploration licences. The remaining licences are planned to be relinquished in 2009 subject to market conditions. As a result, the total exploration expenditures to date of \$5,683,139 were written off in 2008.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

7. MINERAL PROPERTIES (CONTINUED)

Três Marias

In June 2008, Vaaldiam acquired ownership of the Três Marias diamond project in Brazil from Majescor (see Note 3). The project is located 200 kilometres northwest of Belo Horizonte in the state of Minas Gerais. In September 2008, a decision was made to not renew the claims comprising the Três Marias Property when they next come up for renewal. As a result, an amount of \$342,118, representing the expenditures incurred up to December 31, 2008, was written off.

Other

The Catalão kimberlites are located in the state of Goiás, about 280 kilometres south of Brazil's capital Brasília. The Catalão property totals precisely 2,000 hectares.

Under the terms of the acquisition agreement for the Catalão Property, Vaaldiam holds 100% ownership of the property, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe that has been bulk sampled, resulting in the recovery of at least 200 carats of commercial-sized diamonds. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in cash flow from the mine without the need to raise development equity funding. This non-recourse loan would be repaid to Rio Tinto from a portion of Vaaldiam's share of cash flow from the deposit. Should Rio Tinto not exercise its option, then Vaaldiam would continue to own 100% of that kimberlite deposit, to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam.

CANADIAN PROPERTIES

Vaaldiam acquired the Candle Lake, Centennial, Snowden and Alberta Area Properties on January 2, 2008 through the acquisition of Great Western (see Note 3).

Candle Lake

Subsequent to the acquisition, the Company completed the winter drilling program started by Great Western in late 2007. The winter drilling camp was fully demobilized in August 2008.

The results of exploration to date indicated that the southern part of one of the two kimberlite bodies discovered to date was of lower diamond grade and likely would not be economic in the current market. The value of Candle Lake was written down to \$5,013,617 as at December 31, 2008 to reflect the impairment of one of the two diamond deposits tested thus far.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7. MINERAL PROPERTIES (CONTINUED)

Centennial

In 2009, the number of concessions comprising the Centennial Project will be reduced to those which have significantly higher resource potential based on interpretation of the 2006 airborne magnetic survey central to these claims in conjunction with kimberlite indicator mineral results in 2007. To reflect this reduction in claims, the value of the Centennial Project was written down to \$186,174 as at December 31, 2008.

Snowden

The Snowden property was written down to \$225,284 at December 31, 2008 to reflect management's best estimate of fair value.

Alberta Area Properties

The Alberta Area Properties consist of the Utikuma, Birch Mountain, Peerless Lake, Calling Card and La Biche properties. During 2007, prior to the acquisition of Great Western, Vaaldiam spent \$173,730 on the exploration of these properties.

During 2008, following the analysis of sampling results, the Birch Mountain and Peerless Lake land claims were allowed to lapse. In addition, the number of concessions within the Utikuma and Calling Card land claims has been reduced to a few potentially key claims based on results of exploration work to date. To reflect this reduction in claims, the value of the Alberta Area Properties was written down to \$280,014 as at December 31, 2008.

AUSTRALIAN PROPERTIES

Queensland and Northern Territory

The Company, through its wholly owned subsidiary Elkedra, held exploration permits in four Queensland tenements, namely Cravens Peak, Cravens Peak North, Seymour River and Thornton River. Through an agreement with Uramet Minerals Ltd. ("Uramet"), a company listed on the ASX and a former subsidiary of Elkedra, Uramet held the non-diamond exploration and mining rights to these properties, while Elkedra held the diamond exploration and mining rights on several Uramet owned tenements in the Northern Territory, namely Dulcie, Field River, Marqua, Central Mount Stuart, Mount Skinner East, Harper Springs and Prince Henry. Subsequent to December 31, 2008, the Company sold the diamond exploration and mining rights on these Australian properties (see Note 24).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

8. WRITE-DOWN OF PROPERTIES

In light of the deteriorating market conditions and the results of operations during 2008, the Company placed the Duas Barras mine and the Chapada mine on care and maintenance until such time as diamond prices recover to a level that will allow for positive cash flows from operations.

The carrying amounts of all projects were assessed for impairment based on management's assessment of potential indicators of impairment and best estimates of likely courses of action by the Company. The fair values were determined using a variety of valuation methods, the selection of which was based on the method considered most applicable to each project. These methods included discounted cash flows over the life of the asset, reviewing comparable transactions and assessing value per unit of area. The assessment of the carrying value and the determination of these fair values is subject to significant measurement uncertainty and further material write-downs of these assets could occur if actual results differed from the estimates and assumptions used and/or if alternative valuation methods were applied.

As a result, the following impairment charges were recorded to reduce the carrying amount to the estimated fair value:

	2008
Stripping costs	\$ 848,282
Duas Barras mining property	4,903,076
Chapada mining property	8,116,872
Chapada plant and equipment	3,594,515
Exploration properties	99,034,022
Write-down of properties	\$ 116,496,767

9. DISCONTINUED OPERATIONS

In December 2008, the Company reached a settlement agreement in principle with Thanda, Redburn, Marrakwene and Geraldo whereby all of the real property, fixed assets, equipment, concessions, mineral rights and licences of RST would be transferred to Marrakwene. In exchange, the remaining US\$8.5 million due on the RST acquisition, made up of the loans payable to Marrakwene and Redburn, and the Metco Global payables, would be transferred to Marrakwene. Vaaldiam and RST would be released of any obligation to pay additional amounts under the original acquisition agreement. As at the date of filing, the transfer of assets to RST is underway.

The results of operations of RST have been reported separately as "Discontinued operations" for the six months ended December 31, 2008.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

9. DISCONTINUED OPERATIONS (CONTINUED)

Discontinued operations include the following amounts:

As at December 31	2008	2007
Current assets		
Sundry receivables and prepayments	\$ 2,157	\$ -
Inventories	253,267	-
	255,424	-
Property, plant and equipment	7,095,595	-
Mineral properties	3,326,461	-
Brazilian taxes and contributions recoverable	458	-
Total assets	10,677,938	-
Accounts payable and accrued liabilities	(791,124)	-
Net assets	\$ 9,886,814	\$ -

Years ended December 31	2008	2007
Net sales	\$ 759,663	\$ -
Cost of sales	598,561	-
Mine infrastructure and administration	-	-
Mine operating income	161,102	-
Corporate and general	676,254	-
Amortization	92,926	-
	(608,078)	-
Foreign exchange gain	345,301	-
Provision for Brazilian taxes and contributions recoverable	(255,356)	-
Net loss from discontinued operations	\$ (518,133)	\$ -

10. INVESTMENTS

In March 2007, the Company acquired 1,111,112 Units of Great Western at \$0.45 per Unit, for a total consideration of \$500,000. Each Unit consisted of one common share (allocated at \$0.445 per share) and a half warrant (allocated at \$0.005 per half warrant) to acquire one Great Western common share at an exercise price of \$0.60 at any time until March 30, 2009. On December 31, 2007, the closing price of Great Western's common shares on the TSX Venture Exchange was \$0.22, giving rise to a comprehensive loss of \$250,000. During 2008, the Company acquired all of the outstanding shares of Great Western that it did not already own (see Note 3).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

11. LINE OF CREDIT

In June 2008, the Company obtained an unsecured revolving line of credit of US\$2,500,000. Interest for this line of credit is payable quarterly and is determined based on the three-month US\$ LIBOR rate plus 2.75% on the date of each drawdown. Under the terms of the agreement, the creditor may demand repayment at any time by providing 90 days written notice. The credit facility was fully drawn at December 31, 2008.

12. ASSET RETIREMENT OBLIGATIONS

Any restoration, rehabilitation and environmental costs incurred at the Duas Barras and Chapada mines during the life of the mines are expensed immediately as rehabilitation is incurred on an ongoing basis. The asset retirement obligations relate to the closure and reclamation costs associated with the Duas Barras and Chapada mines and associated processing facilities. The Company has estimated the net present value of the obligations using discount rates between 8.2% and 10%. The total closure and reclamation costs are estimated at R\$1,156,000 to be incurred between 2012 and 2014.

The following shows the analysis of the asset retirement obligations:

	2008	2007
Balance, January 1	\$ 377,387	\$ -
Additions to closure and reclamation costs	15,682	370,723
Accretion expense	33,281	6,664
Foreign exchange	(16,052)	-
Expenditures incurred	-	-
Balance, December 31	\$ 410,298	\$ 377,387

13. INCOME TAXES

The Company is subject to income taxes in Canada, United Kingdom, Australia and Brazil.

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 33.50% (2007 – 36.12%) to income before income taxes as follows:

	2008	2007
Expected income tax recovery using statutory income tax rates	\$ 44,895,000	\$ 2,132,000
Increase (decrease) in tax recovery resulting from:		
Adjustment for different tax rates	(430,000)	(20,000)
Stock based compensation	(511,000)	(540,000)
Amounts not taxable	3,223,000	(373,000)
Change in valuation allowance	(15,267,000)	(739,000)
Future income tax recovery	\$ 31,910,000	\$ 460,000

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

13. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to the future tax liabilities as at December 31, 2008 and 2007 are as follows:

Future Tax Assets (Liabilities)

	2008	2007
Canada		
Non-capital losses	\$ 4,639,000	\$ 1,792,000
Property, plant and equipment	86,000	52,000
Stock issuance costs	1,033,000	657,000
Intangible assets	28,000	28,000
Mineral properties	749,000	572,000
Expiration of warrants	(82,000)	-
Unrealized foreign exchange (gains) losses	(184,000)	12,000
Investment in shares	-	73,000
Brazil		
Non-capital losses	8,438,000	2,950,000
Inventories	29,000	-
Property, plant and equipment	490,000	(1,075,000)
Mineral properties	3,387,000	(27,861,000)
Unrealized foreign exchange (gains)	(305,000)	-
Asset retirement obligations	85,000	128,000
Other	226,000	-
Australia		
Mineral properties	132,000	136,000
Unrealized foreign exchange (gains)	(295,000)	-
Other	16,000	(13,000)
	18,472,000	(22,549,000)
Valuation allowances	(18,619,000)	(3,308,000)
Net Future Tax Assets (Liabilities)	\$ (147,000)	\$ (25,857,000)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. INCOME TAXES (CONTINUED)

Losses and Tax Reduction Amounts

Canada

The Company has non-capital losses for income tax purposes in Canada of approximately \$16,354,000 which may be carried forward to reduce taxable income of future years. No provision has been made in these financial statements for the potential income tax savings on the application of these losses. These losses, if unapplied, would expire in the future as follows:

2009	\$	127,000
2010		63,000
2014		795,000
2015		1,569,000
2026		2,874,000
2027		5,658,000
2028		5,268,000
	\$	16,354,000

The Canadian resource pools, which may be carried forward indefinitely, consist of the following amounts:

Cumulative Canadian Exploration Expenditures	\$	4,114,000
Cumulative Canadian Development Expenditures		2,936,000
Foreign Exploration and Development Expenditures		643,000
	\$	7,693,000

Brazil

The Company has non-capital losses for income tax purposes in Brazil of approximately \$24,608,000 which may be carried forward to reduce taxable income of future years. The future tax asset of predominantly all of these losses has been recorded to offset the future tax liability as a result of the business combination of Vaaldiam and Elkedra during 2007. The losses can be used to offset up to 30% of each year's fiscal profits and they can be carried forward indefinitely.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

14. SHARE CAPITAL

Authorized – Unlimited number of common shares, no par value

(a) Common Shares

	Notes	Shares	Amount
Balance, January 1, 2007		81,449,352	\$ 26,437,578
Shares issued for the purchase of Cajueiro (net of expenses for share issue of \$4,256)	3, (i)	1,733,102	1,555,536
Private placements (net of share issue costs of \$5,208,515 including brokers' warrants of \$307,125 and deemed cost of warrant of \$3,027,375)	(ii)	29,250,000	21,511,485
Shares issued for the purchase of Elkedra (net of expenses for share issue of \$71,392)	3, (iii)	55,622,557	48,717,316
Exercise of options	(iv)	18,750	5,438
Repayment of share purchase loan to director	18	-	100,000
Interest received on share purchase loan	18	-	1,750
Balance, December 31, 2007		168,073,761	\$ 98,329,103
Shares issued for the purchase of Great Western (net of expenses for share issue of \$64,355)	3	45,694,837	24,183,174
Shares repurchased under normal course issuer bid	(v)	(310,500)	(176,193)
Shares issued for the purchase of Três Marias property (net of expenses for share issue of \$2,191)	(vi)	234,023	75,037
Private placements (net of expenses for share issue of \$5,922)	(vii), (ix)	27,277,429	3,496,684
Shares issued for the purchase of RST (net of expenses for share issue of \$3,785)	3	3,374,185	1,075,954
Shares issued in respect of rights offering (net of expenses for share issue of \$106,340)	(viii)	708,933	-
Future tax on share issuance costs		-	75,316
Balance, December 31, 2008		245,052,668	\$ 127,059,075

- (i) During the first quarter of 2007, as part of the settlement for the acquisition of Majescor's 40% share of Cajueiro, the Company issued 1,733,102 common shares to Majescor (see Note 3).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

14. SHARE CAPITAL (CONTINUED)

- (ii) In July 2007, the Company entered into an underwriting agreement with Canaccord Capital Corporation (“Canaccord”) which agreed to purchase, on an underwritten private placement basis (the “Offering”), 29,500,000 subscription receipts of the Company (the “Subscription Receipts”) at a price of \$0.90 per Subscription Receipt for aggregate gross proceeds of \$26,550,000. The terms of the underwriting agreement were subsequently revised on August 8, 2007 to reflect an offering of 29,250,000 Subscription Receipts for aggregate gross proceeds of \$26,325,000. The Offering closed on August 15, 2007 and net proceeds of \$6,072,275, representing 25% of the gross proceeds of the Offering less commission to underwriters and legal expenses, was released to the Company. Following the closing of the Elkedra transaction on November 20, 2007, the remaining 75% that was deposited in escrow was released to the Company. Each Subscription Receipt comprised one common share of the Company and one-half of one common share purchase warrant (each an “Underlying Warrant”). Each Underlying Warrant can be exchanged for one additional common share of the Company at an exercise price of \$1.20 per share within 24 months from the closing date of the Offering. A 6% commission as well as 1,755,000 Broker Warrants were issued to the underwriters. The Broker Warrants were ascribed a value of \$307,125, for accounting purposes.
- (iii) On November 20, 2007, in settlement of the acquisition of Elkedra, the Company issued 55,622,557 common shares to existing Elkedra shareholders (see Note 3).
- (iv) During 2007, the Company issued 18,750 common shares at a price of \$0.29 per share for gross proceeds of \$5,438 on the exercise of stock options.
- (v) In January 2008, the Company announced its intention to repurchase through a normal course issuer bid up to 7,621,607 common shares of Vaaldiam, being approximately 5% of its public float at the time of the announcement. The actual number to be purchased, and the timing of the purchase would be determined by the management of the Company, and would be during a 12-month period commencing February 1, 2008 and ending January 31, 2009. All common shares purchased pursuant to the bid would be purchased for cancellation. During the year ended December 31, 2008, 310,500 common shares were repurchased for cash and cancelled.
- (vi) In June 2008, the Company acquired ownership of the Três Marias project in the state of Minas Gerais, Brazil from Majescor who had acquired the project from De Beers in 2006. The acquisition price was \$100,000 in cash and 234,023 common shares of the Company. De Beers retains back-in rights to acquire a 51% interest in the project, under which it will reimburse the Company three times its expenditures on the project. De Beers could also increase its interest to 60% by financing the mine to development.
- (vii) In June 2008, in return for the granting of diamond marketing rights on future Brazil-based production, the Company completed a non-brokered private placement involving the issuance of 7,277,429 common shares at a price of \$0.35 per share for gross proceeds of US\$2,500,000.
- (viii) Under an offering of rights issued, which expired September 17, 2008, each Company shareholder received one right per share, and each two rights entitled the holder to acquire one Company share at a price of \$0.15 per share. As a result of the offer, the Company issued 708,933 common shares for gross proceeds of \$106,340.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

14. SHARE CAPITAL (CONTINUED)

- (ix) On October 14, 2008, the Company closed a private placement of 12,500,000 flow-through common shares at \$0.06 per share for proceeds of \$750,000 and 7,500,000 non flow-through common shares at \$0.04 per share for proceeds of \$300,000.

(b) Common Share Purchase Warrants

	Notes	Warrants	Amount
Balance, January 1, 2007		495,238	\$ 277,333
Issued in respect of private placement	14(a)(ii)	14,625,000	2,632,375
Broker Warrants issued	14(a)(ii)	1,755,000	307,125
Compensation Warrants issued	14(a)(ii)	877,500	-
Issued in respect of Elkedra acquisition	3	4,567,334	713,232
Expired		(495,238)	(277,333)
Balance, December 31, 2007		21,824,834	\$ 3,652,732
Warrants and Broker Warrants issued in respect of Great Western acquisition	3	12,159,030	95,990
Expired		(5,317,795)	(568,669)
Balance, December 31, 2008		28,666,069	\$ 3,180,053

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

The following is a summary of the unexercised warrants as at December 31, 2008:

Date of Issue	Expiry Date	Number Outstanding	Exercise Price
August 15, 2007	February 15, 2009 ¹	1,755,000	\$ 0.90
August 15, 2007	August 15, 2009	14,625,000	1.20
August 15, 2007	August 15, 2009 ¹	877,500	1.20
November 20, 2007	May 31, 2010	1,040,000	1.40
November 20, 2007	May 31, 2010	104,000	1.89
March 10, 2008	February 23, 2009 ¹	900,000	1.33
March 10, 2008	March 30, 2009 ¹	6,350,000	1.33
March 10, 2008	March 30, 2009 ¹	1,033,750	1.33
March 10, 2008	February 23, 2009 ¹	126,000	1.00
March 10, 2008	March 9, 2009 ¹	360,361	1.00
March 10, 2008	March 30, 2009 ¹	900,000	1.00
March 10, 2008	March 30, 2009 ¹	128,375	1.00
March 10, 2008	March 30, 2009 ¹	64,188	1.33
March 10, 2008	August 16, 2009	131,895	1.00
March 10, 2008	February 27, 2009 ¹	270,000	0.55
		28,666,069	

¹ During the quarter ended March 31, 2009, a total of 12,765,174 common share purchase warrants expired unexercised. This total includes 877,500 warrants with an expiry date of August 15, 2009, which were forfeited when the 1,755,000 warrants with an expiry date of February 15, 2009 expired unexercised.

(c) Stock Options

The Company maintains a stock option plan for directors, officers, employees and consultants of the Company. This plan was amended in June 2005, and under the amended plan, which requires approval by the shareholders on an annual basis, the maximum number of shares which may be issued under the plan cannot exceed 10% of the issued and outstanding common shares of the Company at the time of grant of any option. All options normally vest immediately upon issue or three months after commencement of employment or contract, whichever is later.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

14. SHARE CAPITAL (CONTINUED)

	Options	Weighted Average Exercise Price	Fair Value
Options outstanding as at January 1, 2007	4,398,750	\$ 0.64	\$ 1,868,910
Granted during the year	2,675,000	0.85	1,495,325
Granted in respect of Elkedra acquisition	1,742,000	0.75	422,084
Exercised during the year	(18,750)	0.29	-
Options outstanding as at December 31, 2007	8,797,000	\$ 0.73	\$ 3,786,319
Granted during the year	7,545,000	0.43	1,853,530
Granted in respect of Great Western acquisition	2,790,000	1.01	365,940
Expired during the year	(1,080,000)	0.50	(194,400)
Cancelled during the year	(3,327,500)	0.83	(835,501)
Options outstanding as at December 31, 2008	14,724,500	\$ 0.62	\$ 4,975,888

Stock options outstanding and exercisable as at December 31, 2008 are as follows:

Exercise Price	Outstanding	Weighted Average Life (Years)
\$ 0.17	625,000	4.52
0.40	40,000	0.95
0.45	6,870,000	3.93
0.50	313,000	0.87
0.58	650,000	0.92
0.75	1,830,000	2.04
0.84	180,000	1.85
0.85	2,375,000	3.00
0.91	650,000	0.92
0.95	506,250	3.20
0.97	50,000	2.44
0.99	234,000	1.00
1.02	180,000	3.15
1.37	75,000	2.30
1.44	146,250	2.65
	14,724,500	3.10

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

14. SHARE CAPITAL (CONTINUED)

During the year ended December 31, 2008, the Company recognized stock based compensation expense of \$1,525,325 (2007: \$1,495,325) and capitalized \$328,194 (2007: \$Nil) to mineral properties. The weighted average fair value of the options granted during the year was \$0.21 based on the Black-Scholes option pricing model using the following assumptions:

	2008	2007
Risk-free interest rate	3.33%-3.45%	3.94%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	54.57%-66.16%	80.74%
Expected life of options	5 years	5 years

As at December 31, 2008, the remaining number of common shares available for issuance under the stock option plan was 9,780,766.

(d) Contributed Surplus

	2008	2007
Balance, January 1	\$ 277,333	\$ -
Options expired and forfeited	1,029,901	-
Warrants expired	568,668	277,333
Future tax on warrants expired	(82,457)	-
Shares repurchased under normal course issuer bid	89,731	-
Balance, December 31	\$ 1,883,176	\$ 277,333

(e) Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised as follows:

	2008	2007
Balance, January 1	\$ (250,000)	\$ -
Unrealized loss on investments	-	(250,000)
Reversal of unrealized loss on investments	250,000	-
Balance, December 31	\$ -	\$ (250,000)

15. SUMMARY OF SECURITIES AS AT DECEMBER 31, 2008

Common shares outstanding	245,052,668
Unexercised options to acquire common shares	14,724,500
Unexercised warrants to acquire common shares	28,666,069
Fully diluted shares outstanding	288,443,237

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

16. MANAGEMENT OF CAPITAL

The Company considers its management of capital to include all components of debt and shareholders' equity. Its objectives are to ensure that the Company continues to operate as a going concern, if possible, in order to pursue the operation of its mines and the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Company, upon approval from its Board of Directors, makes changes to its capital structure as deemed appropriate under the specific circumstances.

As at December 31, 2008, the Company has drawn down a total amount of US\$2,500,000 of a revolving line of credit (see Note 11), and is in the process of seeking alternative financing and disposing of certain assets.

17. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and price risk.

(a) Currency risk

The Company's sales are denominated in United States dollars. The Company operates primarily in Brazil and a significant portion of the Company's operating costs and capital expenditures are denominated in the Brazilian real and Canadian dollar. As a result, the Company is also exposed to the currency fluctuations relative to these two currencies. A significant change in the currency exchange rates between the Brazilian real and United States dollar relative to the Canadian dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2008, a 10 percent change in the exchange rate between the Canadian dollar and the US dollar with all other variables held constant would result in a change of \$1.3 million in net income. Similarly, a 10 percent change in the exchange rate between the Canadian dollar and the Brazilian Reals with all other variables held constant would result in a change of \$0.3 million in net income.

(b) Credit risk

Credit risk is the risk of unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations.

As the sales of the Company are predominantly through uptake agreements with two customers, the Company is exposed to the concentration of credit risk on the accounts receivable from its customers. However, the uptake agreements provide for a relatively short credit period and thus reduce any credit risk.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

17. FINANCIAL INSTRUMENTS (CONTINUED)

(c) 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 manages liquidity risk through the management of its capital structure as outlined in Note 16 to the consolidated financial statements, and continuously monitors its forecast and actual cash flows from operations. To the extent that the Company expects it does not have sufficient liquidity to meet these obligations, management will endeavor to secure additional funds through debt or equity transactions. There can be no guarantee that management's efforts to secure additional funds will be successful.

(d) Price risk

The Company is exposed to price risk with respect to commodity prices through the price of diamonds and gold and also through various input prices such as electricity and fuel. The Company monitors the price of commodities continuously as well as major input prices and considers the risk exposure to fluctuating prices.

18. RELATED PARTY TRANSACTIONS

Transactions with related parties, all of which are recorded at the exchange amount which is the amount of consideration agreed upon by the related parties, are as follows:

(a) Amounts Paid or Payable

Years ended December 31	2008	2007
Management and consulting fees paid or payable to a company then controlled by the:		
Vice President, Business Development	\$ 203,290	\$ 18,001
Vice President, Technical Services	174,000	18,001
	\$ 377,290 ¹	\$ 36,002

¹ Of which \$270,616 was expensed, \$97,404 was allocated to projects and \$9,270 was allocated to acquisition costs.

Included in accounts payable and accrued liabilities at December 31, 2008, is an amount of \$77,494 payable to a company then controlled by the former Vice President, Business Development and former Vice President, Technical Services.

In July 2008, the Company acquired rights to a mineral property adjacent to the Braúna property in Nordeste in the state of Bahia, Brazil. These were acquired from Mineração Monte Alegre Ltda., a company associated with a significant shareholder, in return for a 5% royalty on gross sales proceeds from diamond production from the property.

During the twelve months ended December 31, 2007, VBM paid \$40,729 for accounting and administration services to a major shareholder.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****18. RELATED PARTY TRANSACTIONS (CONTINUED)****(b) Loans**

During September 2004, the Company granted loans totaling \$212,790 to four directors, the proceeds of which were used to acquire 531,975 units of the Company as part of a private placement. Of these loans, \$112,790 was repaid during the year ended December 31, 2006 including interest thereon. The remaining loan of \$100,000, together with interest thereon, was repaid on March 16, 2007.

In May 2006, a loan, repayable on demand in the amount of \$40,000 and bearing interest at the Canadian prime rate plus 3%, was granted to an officer and director, and the amount, together with interest thereon, was repaid on December 20, 2007.

19. LOSS PER SHARE

For the purpose of the determination of net loss per share, the basic and diluted weighted average number of common shares outstanding for the year ended December 31, 2008 was 222,047,230 (2007: 92,448,150). The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding warrants and options since to do so would reduce the loss per share and would therefore be anti-dilutive.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

20. SEGMENTED INFORMATION

The Company operates in the diamond exploration and mining industry in Brazil, Canada and Australia. The Company has three reportable segments: the Duas Barras mine, the Chapada mine, and corporate and other. The corporate segment includes the Company's administrative, business development and exploration activities. The Company considers each mine as a separate business unit because the recovered diamond grade and the quality and size of the diamonds recovered varies significantly between the two mines.

Year ended December 31, 2008	Duas Barras		Chapada		Corporate and Other	Total
Net sales	\$ 5,175,373	\$	2,427,568	\$	-	\$ 7,602,941
Cost of sales (including cost of production)	6,328,378		4,128,636		-	10,457,014
Mine infrastructure and administration	2,374,180		2,412,977		-	4,787,157
Mine operating loss	(3,527,185)		(4,114,045)		-	(7,641,230)
Corporate and general	-		-		3,627,641	3,627,641
Stock-based compensation	-		-		1,525,335	1,525,335
Amortization	47,933		80,387		272,965	401,285
Operating loss before property write-downs, interest income and foreign exchange	\$ (3,575,118)	\$	(4,194,432)	\$	(5,425,941)	\$ (13,195,491)
Additions to property, plant and equipment	\$ 1,605,993	\$	709,109	\$	945,248	\$ 3,260,350
Total assets, excluding assets of discontinued operations	\$ 5,831,856	\$	4,079,412	\$	22,019,378	\$ 31,930,646

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

20. SEGMENTED INFORMATION (CONTINUED)

Year ended December 31, 2007	Duas Barras		Chapada		Corporate and Other		Total
Net sales	\$	1,030,407	\$	368,896	\$	-	\$ 1,399,303
Cost of sales (including cost of production)		480,249		447,691		-	927,940
Mine infrastructure and administration		717,832		138,153		-	855,985
Mine operating loss		(167,674)		(216,948)		-	(384,622)
Corporate and general		-		-		2,627,591	2,627,591
Stock-based compensation		-		-		1,495,325	1,495,325
Amortization		100,718		6,216		233,818	340,752
Operating loss before property write-downs, interest income and foreign exchange	\$	(268,392)	\$	(223,164)	\$	(4,356,734)	\$ (4,848,290)
Additions to property, plant and equipment	\$	1,435,861	\$	-	\$	307,793	\$ 1,743,654
Total assets, excluding assets of discontinued operations	\$	12,412,803	\$	83,410,363	\$	27,430,658	\$ 123,253,824

21. SUPPLEMENTARY CASH FLOW INFORMATION

The following non-cash transactions are not reflected in the consolidated statements of cash flows:

	2008		2007	
Issuance of shares regarding acquisitions	\$	25,404,496	\$	50,272,852
Warrants issued regarding acquisitions		95,990		307,125
Options issued regarding acquisitions		365,940		-
Changes in accounts payable and accrued liabilities related to investing activities		4,535,816		49,510

22. FLOW-THROUGH COMMON SHARES AND COMMITMENTS

Restricted cash represents cash proceeds from the issuance of flow-through common shares which is required to be spent on eligible Canadian Exploration Expenditures. As at December 31, 2008, the Company was obligated to spend \$650,299 in eligible Canadian Exploration Expenditures before December 31, 2009.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

23. COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

2009	\$	257,563
2010		71,074
2011		1,481
Thereafter		-
Total	\$	330,118

Contingencies

Subsidiaries of the Company have been served claims by former employees in Brazil in relation to wrongful dismissal, lost wages, overtime and reimbursement of expenses. Some of these claims are still subject to court judgment, while others are in the process of being appealed. In the opinion of management and on advice of legal counsel, these matters are without merit; however, based on the expected outcome of these claims, a provision has been made for the claims in the consolidated financial statements. In addition, a lien was made by a former employee on an asset of the subsidiary to the amount of approximately \$265,000.

24. SUBSEQUENT EVENTS

(i) Re-pricing of Warrants

On January 9, 2009, the Company reduced the exercise prices of unexercised, outstanding warrants from their current exercise prices, which ranged from \$0.55 to \$1.89, to an exercise price of \$0.08. All other terms and conditions of the warrants remain unchanged. Exercise prices were not amended for any warrants held by insiders of the Company.

(ii) Stock Options

On February 18, 2009, 8,500,000 stock options were granted to directors, officers, consultants and employees of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$0.05 per share.

(iii) Sale of Australian Diamond Exploration Rights

In December 2008, Elkedra entered into an agreement with Uramet and Legend International Holdings Ltd. ("Legend") whereby Elkedra would sell the diamond exploration and mining rights to Legend for A\$150,000. The agreement was subject to approval of the Foreign Investment Review Board of Australia and the Minister for Mineral in Queensland. In February 2009, the approval was received and the transaction was completed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

24. SUBSEQUENT EVENTS (CONTINUED)

(iv) RST Settlement

In January 2009, the Company negotiated a settlement agreement with Thanda, Redburn, Marrakwene and Geraldo (see Note 9). Documentation to formalize the agreements in Brazil along with the transfer of title to the assets was underway as at March 27, 2009.

(v) Extrajudicial Recovery Plan in Brazil

An extrajudicial recovery plan (the "Plan") was approved by MMC's creditors representing 68% of MMC's debts outstanding, and on February 2, 2009 (the "Date of Acceptance"), application was made to the Civil Court in Brazil for the approval of the Plan, which would bind all creditors of MMC. The Plan would be valid for a period of 120 days from the court's approval and would apply to all invoices issued prior to the Date of Acceptance. Under the Plan, all action of the creditors against MMC would be stayed, and MMC would commit to allocating a portion of the proceeds from the sale of certain major assets as well as from financing to the repayment of such creditors. As at March 27, 2009, the Plan is awaiting final court approval.

CORPORATE INFORMATION

DIRECTORS

Kenneth W. Johnson
President and Chief Executive
Officer Vaaldiam Resources

Alan Lee Barker
President
Sparton Resources Inc.

Peter Bojtos
Professional Engineer
and Corporate Director

Brent Jellicoe
Vice President,
Exploration and Evaluation
Vaaldiam Resources Ltd.

Robert Lord
President
Captaur Investments Limited

Sam Randazzo
Managing Director
Uramet Minerals Limited

Antenor Silva Jr.
President
Yamana Gold Inc.

OFFICERS AND SENIOR MANAGEMENT

Kenneth W. Johnson
President and Chief Executive
Officer Vaaldiam Resources

Frances Kwong
Vice President and Chief Fi-
nancial Officer

Alfredo Luiz Perin
General Manager, Brazil

Brent Jellicoe
Vice President,
Exploration and Evaluation
Vaaldiam Resources Ltd.

David Shimoda
Controller

Robert Yeoman
Vice President

Cíntia Zanellato
Manager Legal Affairs and
Corporate Secretary

REGISTRAR AND TRANSFER AGENT

Equity Transfer & Trust Company
Toronto, Ontario, Canada

AUDITORS

Ernst & Young LLP
Toronto, Ontario, Canada

LEGAL COUNSEL

Fogler, Rubinoff LLP
Toronto Ontario, Canada

Veirano Advogados
Rio de Janeiro, Brazil

STOCK EXCHANGE LISTING

Toronto Stock Exchange
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Annual and Special Meeting of Share-
holders

10:00 am, Tuesday, June 16, 2009
Corporate Office