

Management's Discussion and Analysis

Readers of the following Management's Discussion and Analysis should refer to the Company's unaudited comparative consolidated financial statements for the six months ended June 30, 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 August 14, 2008. 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

Certain statements contained herein are forward-looking and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. These opinions and estimates include those estimates and opinions that relate to all the geological, mining and commodity price and marketing parameters used by management. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects", "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will be taken", "will occur" or "be achieved".

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. Readers are therefore cautioned not to place undue reliance on any forward-looking statement.

Half Year Ended June 30, 2008 Highlights

Strategic and operational highlights of the six months ended June 30, 2008 and to date are as follows:

- Sold 27,890.69 carats of diamonds for gross proceeds of US\$6,157,043.94 or an average of US\$220.76 per carat from the 100% owned Duas Barras and Chapada mines in Brazil;
- 30.95 carat diamond recovered at Chapada mine sold for US\$230,033;
- Initial tonnage estimate for the Braúna 3 kimberlite pipe of 4.7 million to 5.5 million tonnes;
- 370 macrodiamonds totaling 13.99 carats recovered from Candle Lake mini-bulk sample;
- Continued processing of mini-bulk sample from Pimenta Bueno;
- Acquired 100% of Great Western Diamonds Corp.;
- Planned expansion of Duas Barras mine by acquiring the adjacent Peçanha diamond mine;
- Expanded and strengthened management team; and
- Filed prospectus relating to a rights issue.

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. The Company's objective is to increase the underlying value of its shareholders' investment in Vaaldiam by:

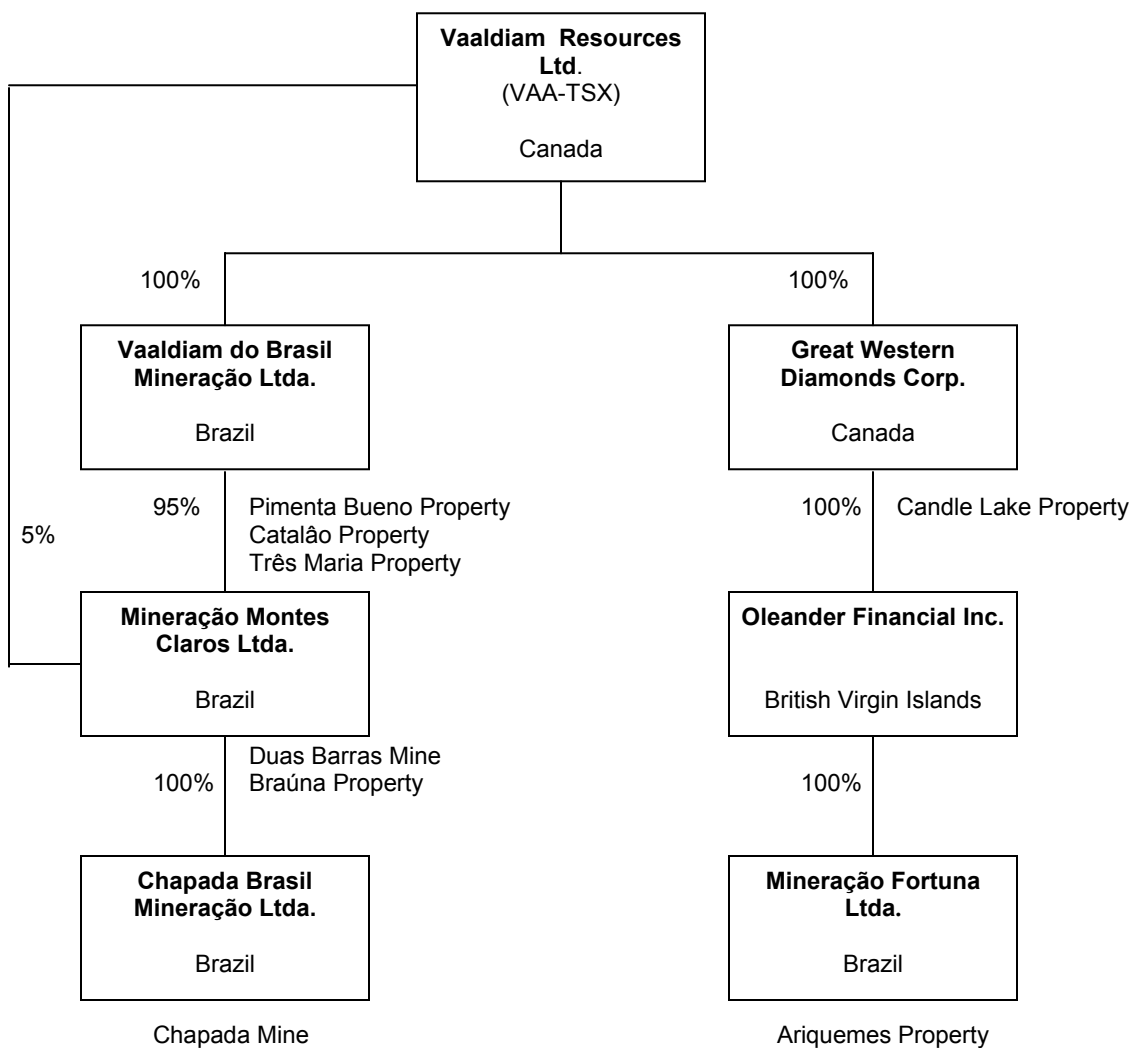
- Becoming a profitable miner of rough diamonds from primary (kimberlite) sources; and
- Becoming a profitable and growing producer of gem quality rough diamonds from secondary (alluvial) sources.

Vaaldiam's general strategy to achieve its objective is to generate early cash flow, by acquiring and sequentially developing to production alluvial diamond deposits which typically host predominantly gem quality diamonds. Vaaldiam's Duas Barras and Chapada mines in Brazil are two of such alluvial diamond deposits. Any cash flow from Vaaldiam's alluvial diamond deposits would be used to fund, at least in part, exploration for and evaluation of, advanced stage, diamond bearing kimberlite pipes having the potential for large scale diamond production. Vaaldiam's Braúna and Pimenta Bueno projects in Brazil

are two such advanced stage diamond bearing kimberlite projects. In utilizing any cash flow from alluvial mines to fund at least in part development of advanced stage kimberlite properties, Vaaldiam endeavours to minimize shareholder dilution arising over time from the issuance of equity to raise capital.

Operations

Operations are conducted directly and through its subsidiaries whose relationship to Vaaldiam is reflected below.



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. was transferred to Montes Claros. Vaaldiam's Brazilian corporations will continue to be restructured during 2008 to achieve administrative and tax efficiency.

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

Production

Duas Barras Mine, Minas Gerais, Brazil

Vaaldiam's 100% owned Duas Barras Mine is situated 150 kilometres north of the town of Diamantina in the State of Minas Gerais, Brazil. The Duas Barras Mine lies along the left bank of the upper Jequitinhonha River, which has been a significant diamond producing area since the early 1800s. The mineral rights, which are owned by Montes Claros, a subsidiary of Vaaldiam, lie within the "Duas Barras Farm", whose surface rights owner receives a 6% royalty on gross sales revenue from the mine. The mineral rights are held under a Mining Licence granted by the DNPM under licence number 806.569/77 and covers an area of 170.89 hectares.

Construction of the mine commenced in the third quarter of 2006 with the fabrication of the major processing plant components in the cities of São Paulo, Diamantina and Belo Horizonte. The components were delivered to the site in January 2007, when the actual construction of the mine and processing facility commenced. Contract mining operations started in February 2007.

Commissioning of the Duas Barras processing plant commenced on May 14, 2007. A total of 20,786.93 bank cubic metres ("bcm") of gravel was processed during the commissioning stage, resulting in the recovery of 19,676 diamonds with a total weight of 4,904.54 carats at a recovered grade of 0.24 cts per bcm. Commercial production started on September 1, 2007.

The following table provides a quarterly summary of the diamond and gold production of Duas Barras between September 1, 2007 and June 30, 2008.

Quarter Ended	Gravel Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Grade (carats per bcm)	
2007						
Sep. 30	22,838	15,139	4,304	0.28	0.19	(1)
Dec. 31	74,837	58,410	14,752	0.25	0.20	
2008						
Mar. 31	55,572	21,732	6,539	0.30	0.12	
Jun. 30	30,555	11,177	2,211	0.20	0.07	
Total	183,802	106,458	27,806	0.26	0.15	

(1) Production for month of September only.

Since commercial diamond production commenced on September 1, 2007, to June 30, 2008, 183,802 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 27,806 carats of diamonds with an average weight per stone of 0.26 carats. The recovered diamond grade of gravel treated to June 30, 2008 was 0.15 cts per bcm. Gravel volume treated during the first half of 2008 amounted to 86,127 bcm resulting in the recovery of 8,750 carats of diamonds, a recovered grade of 0.10 cts per bcm, with an average weight per stone of 0.27 carats. The lower recovered grade of the alluvial gravels mined during the first half of 2008 is reflective of the processing of the higher level gravels comprising the Duas Barras alluvial deposit. These higher level gravels, termed the "yellow gravel horizon", overlie the coarser white gravels which are known to be higher grade. By comparison, the yellow gravels typically produce recovered diamond grades ranging between 0.07 to 0.12 cts per bcm, whereas the white gravels grade between 0.12 and 0.20 cts/bcm. Combined, the yellow and white gravels provide an average recovered grade in the range of 0.15 to 0.18 cts per bcm.

The variability of grade is typical of an alluvial deposit, where the mineralization is dependent on the physical conditions prevalent when the diamonds were deposited. Such conditions include the geological

timing when the gravels were deposited, the source rock of the gravels, the velocity of the water, the configuration of the ancient river or stream, and the topography of the bedrock.

Production during the first half of 2008 was lower than the last four months of 2007 as a result of the advancement of the mining operations to a new mining panel and the processing of lower grade “upper gravel sequence”, coupled with the temporary shutdown of the Duas Barras plant to enable plant modifications. Production during the second quarter of 2008 was significantly lower than the previous two quarters and is reflective of the processing of the lower grade “upper gravel sequence” coupled with the loss of production over a period of 28 days during May and June to allow for the installation of two Flow Sort® X-Ray diamond recovery units. The new Flow Sort machines are expected to result in an increase in production throughput and significantly increased diamond recovery and security. During the second quarter of 2008, mining activities focused on the stripping of overburden to expose the diamond bearing gravels. Overburden stripping increased during the second quarter of 2008 by 75% as a new mining block was opened at the eastern end of the Duas Barras deposit. Conversely, mining and plant throughput decreased by 44% during the second quarter (as compared to Q-1 2008), as mining equipment that is usually involved in the excavation of diamond bearing gravels was diverted to overburden stripping activities. Overburden stripping activities are expected to decrease during the third quarter of 2008 while mining of gravel is expected to increase as the new mining block is developed and gravel is exposed.

The processing plant upgrade, including the installation of the Flow Sort machines, was finalized on June 3, 2008. Diamond production is therefore expected to increase during the second half of 2008 as a result of the combined impact of mining deeper higher grade gravel, the processing of higher volumes of gravel, and improved diamond recoveries.

The Duas Barras mine sold four parcels of diamonds during the first half of 2008 selling a total of 87,031 diamonds weighing a total of 23,147.30 carats for gross total proceeds of US\$3,798,485.94 or US\$164.10 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 half year ended June 30, 2008.

Sale	Total Stones	Total Carats	Gross Total Value (US\$)	Average Value/ct (US\$)	Average Stone Size/ct
1	27,524	7,331.15	\$1,206,179.37	\$164.53	0.27
2	24,073	6,271.22	1,000,101.20	159.47	0.26
3	20,051	4,815.70	740,943.97	153.86	0.24
4	15,383	4,729.23	851,261.40	180.00	0.31
Total	87,031	23,147.30	\$3,798,485.94	\$164.10	0.27

A total of 3,122.44 carats of diamonds were held in inventory at the end of June 2008. In addition to the diamond sales during the first half of 2008, a total of 762 ounces of by-product gold was sold for US\$674,546 or US\$885.23 per ounce.

During the half year ended June 30, 2008 an operating loss of \$1,058,926 was recorded at the Duas Barras mine primarily as a result of reduced gravel production arising from plant modifications and the treatment of lower grade ore. The mine operating loss of \$1,058,926 recorded in the financial statements in accordance with Canadian GAAP is after non-cash amortization of \$1,057,364. 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 six months ended June 30, 2008 was approximately \$1,562.

On August 13, 2008, Vaaldiam filed an updated technical report for the Duas Barras 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 acquire the neighbouring 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 provide Vaaldiam with a second 2,000 tonne per day diamond recovery plant and a new mining fleet which would immediately increase diamond production at Duas Barras. The acquisition of RST would significantly expand the Company's operations in the historic Diamantina diamond district and would strengthen Vaaldiam's position as South America's largest diamond producer.

The benefits of the acquisition would include:

- Fully Permitted Mine with Current Diamond and Gold Production: Located immediately adjacent to Vaaldiam's 100%-owned Duas Barras mine, RST's landholdings comprise 23 mining and exploration concessions covering approximately 110 kilometres of the Jequitinhonha River, a prolific diamond producing area for over 250 years;
- Long Life of Mine and Sustained Growth: RST's Peçanha mine is believed to represent the eastern extension of the Duas Barras deposit, where Vaaldiam has recovered over 27,000 carats of gem quality diamonds during the first ten months of commercial production from September 2007. Acquisition of the RST concessions would increase Vaaldiam's exploration potential from just four kilometres of the Jequitinhonha River to 110 kilometres of potentially diamondiferous paleochannels and terrace deposits. The acquisition would provide significant opportunity for further expansion of production in the district;
- More High Value Diamonds and Gold: Diamonds produced from this region generate average sale values ranging from US\$150 to US\$180 per carat. Sales of diamonds from Vaaldiam's Duas Barras mine, situated across the river from RST's operation, have had an average value of US\$164 per carat. Gold is also an important by-product of the diamond production in this region, generating gross sales revenues based on current gold prices ranging from US\$3 to US\$5 per cubic metre of gravel mined;
- Opportunity to Immediately Increase Production: Included in the transaction would be a newly constructed 100 tonne per hour dense media plant, spare parts and new mobile mining equipment with an estimated replacement value of US\$8.5 million;
- Existing Infrastructure: Vaaldiam would gain access to an extensive existing infrastructure and support facilities which would include a fully operational fabrication workshop, maintenance buildings, office and accommodation buildings and warehouse facilities with an appraised value of US\$1.85 million; and
- Exploration Data: Resource delineation would be fast-tracked through the use of an extensive database of historic exploration data consisting of drilling and bulk sampling data and over 200 years of production information.

Under the terms of the acquisition agreement, Vaaldiam would acquire RST for a cash payment of US\$9 million and the issuance of common shares of Vaaldiam in the amount of US\$1.17 million. The terms of the transaction are as follows:

- July 1, 2008: Vaaldiam paid the shareholders of RST US\$500,000 cash and US\$1,170,000 of Vaaldiam common shares;
- August 15, 2008: Vaaldiam is required to pay the shareholders of RST the balance owing of US\$8.5 million.

Funding to pay the balance of US\$8.5 million to acquire RST would be substantially provided from the rights issue announced on July 3, 2008. As the final prospectus for the rights issue was filed on August 13, 2008, with a rights expiry date of September 17, 2008, the Company will endeavour to defer payments of the balance owing to complete the acquisition of RST until September 17, 2008.

Chapada Mine, Mato Grosso, Brazil

Vaaldiam acquired a 100% interest in the Chapada Mine on November 20, 2007 following the completion of the merger with Elkedra Diamonds N.L. During the first half of 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.

Gravel processing increased 19% during the second quarter of 2008 compared to the first quarter. However, despite the increase in the production rate, carats recovered rose by 8% as the diamond grade decreased during the second quarter to 0.023 cts bcm from 0.026 cts per bcm in the first quarter, which reflected the mining and processing of the remaining high terrace lower grade gravel on the Quilombo concession. The following table provides a quarterly summary of the diamond production of Chapada during the first half of 2008 and for each quarter of 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
2008 To Date	198,291	9,609	4,803	0.50	0.024

During the half year ended 2008 four parcels of diamonds were sold from the Chapada mine amounting to 4,743.39 carats in total which realized gross proceeds of US\$2,358,558 or US\$497.23 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 25% to US\$497.23 per carat during the first half of 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 first half of 2008.

Sale	Total Stones	Total Carats	Gross Total Value	Average Value/ct (US\$)	Average Stone Size/ct
1	1,747	909.50	\$363,800.00	\$400.00	0.52
2	3,116	1,401.00	581,170.00	414.83	0.45
3	2,671	1,316.89	520,880.00	395.54	0.49
4	1,967	1,116.00	892,708.00	800.00	0.57
Total	9,501	4,743.39	\$2,358,558.00	\$497.23	0.50

A total of 517.95 carats of diamonds were held in inventory at the end of June 2008.

During the first half of 2008 an operating loss of \$2,535,207 was recorded at the Chapada mine. Included in the operating costs under Canadian GAAP are \$668,065 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 \$1,867,142 for the financial half year ended June 30, 2008.

Vaaldiam has recently identified a number of initiatives to lower operating costs, improve recoveries and expand resources and production. Some of the key initiatives to reduce operating costs would be the installation of an in-pit screening plant in the mining area to reduce the cost of ore transport and the replacement of the mining contractor with Vaaldiam's own mining fleet. Pending the purchase of Vaaldiam's own mining fleet the contract mining operations were suspended at the Chapada mine at the beginning of July 2008 which was the end of the contract mining contract period.

Exploration – Brazil

While Brazil is a significant producer of diamonds, all the diamonds recovered in Brazil over the past 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.

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 feasibility study.

The Braúna 3 pipe encompasses about 1.85 hectares and was recently the focus of a drilling program designed to delineate the pipe in sufficient detail to support a resource calculation. To date a total of 56 holes have been 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 8.29 carats, indicating a recovered grade of 20.73 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 honors 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)	2007 Sample Results	
				Sample Weight (tonnes)	Estimated Diamond Content (cpht)
Conservative Model					
Braúna 3 North	1,026,510	26	200.70	2.15	24.19
Braúna 3 South	3,676,137	30	201.45	37.69	20.54
Total Braúna 3	4,702,647	56	201.45	39.84	20.73

Kimberlite Body	Tonnage Estimation (tonnes)	Total Core Holes Drilled To Date	Deepest Kimberlite Intersection (vertical metres)	2007 Sample Results	
				Sample Weight (tonnes)	Estimated Diamond Content (cpht)

Optimistic Model					
Braúna 3 North	1,312,087	26	200.70	2.15	24.19
Braúna 3 South	4,242,007	30	201.45	37.69	20.54
Total Braúna 3	5,554,094	56	201.45	39.84	20.73

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)	2007 Sample Results	
				Sample Weight (tonnes)	Estimated Diamond Content (cpht)
Conservative Model					
Braúna 3 Central Dike	320,790	18	228.14	44.9	5.76
Optimistic Model					
Braúna 3 Central Dike	563,406	18	228.14	44.9	5.76

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 revise 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 is currently being constructed to process the bulk sample. Information generated during this program, coupled with the information from the recently completed delineation drilling, will provide the basis for the feasibility study.

Approximately five kilometres to the north of the Braúna 3 pipe lies the Braúna 8 kimberlite dike. Two mini-bulk samples extracted from the Braúna 8 pipe weighing 30.65 dry tonnes yielded 145 macro diamonds weighing 17.54 carats in total, indicating a recovered grade of 57.23 cpht. Included in the diamonds recovered was a 7.97 carat 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, however, which appeared to have been broken during processing. The Braúna 8 occurrence is a 4.5 metre wide, vertically oriented kimberlite dike forming a 500 metre long section of the northwest trading dike system. Recent exploration conducted in the vicinity of the Braúna 8 pipe suggests that this pipe is linked to the Braúna 21 pipe.

During the first half of 2008 a total of \$865,642 was spent on the Braúna project bringing total expenditure to date on this project to \$10,572,699 including acquisition costs of \$5,951,664.

Pimenta Bueno Property, Rondônia, Brazil

In June 2007 the Company announced an agreement with Rio Tinto Desenvolvidos Mineraiis 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.

The agreement with Rio Tinto provides that following the recovery of at least 200 carats of commercial sized diamonds from a particular kimberlite deposit in the Southern Block, Rio Tinto may exercise an option to acquire a 60% interest in that particular kimberlite deposit. Rio Tinto would exercise this option by (i) completing a feasibility study at Rio Tinto's expense and (ii) granting Vaaldiam a 40% deferred carried equity interest to production in that kimberlite deposit by extending Vaaldiam a non-recourse project loan to finance Vaaldiam's share of mine development costs. This non-recourse loan would be repaid to Rio Tinto from 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. 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 two 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.

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 involves the collection of 250 tonnes of kimberlite from vertical shafts excavated to a depth of 30 metres. The extraction of samples in this manner will provide 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 June 30, 2008 the Company had extracted a 191 tonne 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 from a 62 tonne sample collected by Rio Tinto in 2006. The sample extracted is currently in the final stages of processing at the Company's recovery plant in the state of Bahia, Brazil, and results are expected to be available during the third quarter of 2008.

During the half year ended June 30, 2008, the Company's Pimenta Bueno property exploration expenditures were \$305,874 bringing total expenditures by Vaaldiam on the property to date to \$5,376,714 including \$265,311 of acquisition costs.

Ariquemes Property

The Ariquemes Property is owned by Vaaldiam's now wholly owned subsidiary Great Western. In March 2007 Great Western acquired 100% of Oleander Financial Inc. ("Oleander") from Santa Elina Mines Corporation ("SEMC"). Oleander's wholly owned subsidiary Mineração Fortuna Ltda. owns the Ariquemes Property.

The Ariquemes Property is located in the State of Rondônia some 200 kilometres to the east of the Pimenta Bueno Property. The property comprises some 830,000 hectares and is therefore over three times larger than the Pimenta Bueno Property. This property was explored for diamonds by De Beers approximately 30 years ago and in 2006 by BHP Billiton in a joint venture with SEMC. 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. The 2006 exploration programs covered approximately two thirds of the western portion of the property and none of the eastern portion. Since the Ariquemes Property was acquired by Great Western in 2007 only a minimal amount of exploration has been conducted. In addition to diamonds, the area has been a prolific tin producing district. To assess the tin potential of the Ariquemes Property, Vaaldiam has commissioned a geologist who specializes in tin to complete a compilation of the tin occurrences within the claims group. The Ariquemes Property is carried in Vaaldiam's books at \$15,328,409 as at June 30, 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 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 23.55 cpht. During 2008 Vaaldiam has 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 has been proposed and is expected to commence during the later half of 2008.

Under the terms of the acquisition agreement for the Catalão Property, Vaaldiam will hold 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 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.

Aroeira Property, Bahia, Brazil

In June 2006, Vaaldiam acquired, 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 Vaaldiam's 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.

In November 2006, Vaaldiam acquired ownership of De Beers' exploration dataset for the Aroeira area. The Aroeira dataset covers an area of approximately 117,600 hectares and includes exploration results from 645 samples. Vaaldiam acquired this dataset as a result of an agreement with De Beers Brasil Ltda. to purchase De Beers' exploration dataset for the Traíra diamond district in northern Mato Grosso state, together with a claim owned by De Beers in the Traíra area covered by the dataset. As a result of environmental restrictions, De Beers were unable to transfer ownership of the Traíra claim to Vaaldiam. Therefore, in November 2006, De Beers offered and Vaaldiam accepted, the dataset for the Aroeira diamond district in the state of Bahia, to offset the inability to transfer ownership of the Traíra claim to Vaaldiam.

Vaaldiam has conducted no material exploration within the Aroeira district to date and the amount of \$169,258 reflected as the carrying value of the asset as at June 30, 2008 relates to the cost of acquiring the dataset from De Beers.

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. The project was acquired by Majescor from De Beers in 2006.

The Três Marias project is located in the lower reaches of the Abaeté River which boasts a long history of alluvial diamond production including the reported recovery of pink and red fancy stones. The acquisition of the Três Marias project includes a substantial data set of 16,774 kilometres of airborne magnetic data and 2,841 mineral samples. Within the samples are high interest kimberlite indicators exhibiting fresh surface features which may indicate the presence of adjacent kimberlite pipes while 147 of the samples were reportedly diamond bearing.

De Beers retains back-in rights to acquire a 51% interest in the project, however, to exercise its back-in rights De Beers must reimburse Vaaldiam three times its expenditures on the project. By financing a mine to development De Beers could increase its interest to 60%.

To acquire the Três Marias project, Vaaldiam paid Majescor \$100,000 in cash and 234,023 Vaaldiam common shares.

Exploration – Canada

Candle Lake Property, Saskatchewan, Canada

Vaaldiam acquired a 100% interest in 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 flow-through shares was completed to fund the 2007/8 winter exploration program on the Candle Lake property.

The Candle Lake Property consists of 38 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 38 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) totalling 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 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") in Saskatoon, Saskatchewan dense media plant commenced processing the Great Western samples from the 2006-7 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 2.2 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 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)	Average 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	3.2	19	4.60	5	2.63
Kimb 2 South	121.67	59	1.55	1.3	3	0.43	0	0.00
Kimb 3 South	139.21	78	2.23	1.6	2	0.50	1	0.31
Kimb 4 North	45.96	29	1.35	2.9	3	0.71	1	0.38
Kimb 6 North	112.57	67	1.97	1.8	4	0.89	1	0.40
Total	632.94	370	13.99	2.2	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 2007/08 drilling season yielded 4,701 metres of drill core and 1,116 metres of kimberlite intersection. The drill core intersections indicate a relatively thick and continuous tabular body and have expanded the tonnage calculation of the C29/30 kimberlite. Presently, work is focusing on integrating geophysical, geotechnical, drilling and analytical results for the C27/30 kimberlite in order to complete a 3D geological model of the kimberlite body. The 2007/8 winter drilling camp was demobilized in April.

The Candle Lake property is carried in Vaaldiam's books at \$14,379,764 as at June 30, 2008 including acquisition cost of \$11,535,953.

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 totalling 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 completed on the properties in 2007 to help identify 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 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 are underway. The Centennial Project was carried on Vaaldiam's books at \$508,536 at June 30, 2008.

Alberta Area Properties, Canada

The Alberta Area 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 Labiche 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.

At the Calling Card and Peerless Lake properties Great Western in 2007 collected bulk samples for indicator mineral chemistry analysis. A number of kimberlite indicator mineral anomalies were identified on the Calling Card property as a result of this work. No anomalies were identified on the Peerless Lake property, and the claims comprising that property have been allowed to lapse. 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 are pending. The Alberta area properties were carried in Vaaldiam's books at \$646,201 at June 30, 2008.

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 geophysical survey and a 328 metres two core hole drilling program on the Snowden property. The Snowden property was recorded in Vaaldiam's books at \$661,850 at June 30, 2008.

SELECTED FINANCIAL INFORMATION

Six Months Ended June 30		2008	2007
Sales		\$ 6,202,460	\$ -
Net loss - total		11,798,640	4,147,487
- per share		0.06	0.05
Cash and cash equivalents		3,075,034	2,669,799
Restricted cash		860,005	184,606
Inventories		1,229,252	-
Working capital		4,263,156	2,427,721
Property, plant and equipment		11,264,739	3,014,791
Mineral properties		130,686,616	18,010,072
Total assets		150,043,942	24,680,822
Future tax liabilities		34,905,471	-
Shareholders' equity		112,363,131	22,131,075
Cash dividends per share		-	-

Summary of Quarterly Results

Quarters Ended	Sales	Income (Loss)	
		Total	Per Share
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)
December 31, 2006	-	(926,003)	(0.01)
September 30, 2006	-	(193,701)	(0.00)

During the six months ended June 30, 2008 a loss of \$11,798,640 or \$0.06 per share was recorded compared to a loss of \$4,147,487 or \$0.05 per share in the corresponding period of the prior year. The increased loss of \$7,651,153 arose primarily from a mine operating loss of \$3,594,133, an increased corporate and general expense of \$1,268,961, an increase in amortization of \$75,866, a reduction in interest income of \$54,166, lower stock based compensation expense of \$31,240 and an increase of \$4,480,297 in foreign exchange loss, all partially offset by a reduced write-off of exploration properties of \$1,450,456.

The increase in corporate and general expenses arose mainly from the recently completed acquisitions 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.

The gross mining loss resulted primarily from an operating loss of \$1,058,926 recorded at the Duas Barras mine and an operating loss of \$2,535,207 recorded at the Chapada mine. Interest income declined due to a lower average level of cash and cash equivalents on deposit.

During the six months ended June 30, 2008 and 2007, amounts of \$1,464,085 and \$1,495,325 respectively were incurred relating to stock based compensation expenses. During the six months ended June 30, 2008 an amount of \$189,569 was written off relating to the Peerless and Birch Mountain Properties in Alberta. In addition, during the six months ended June 30, 2007, an amount of \$1,640,025 was written off representing exploration expenses incurred with respect to the Coronation Gulf property in 2007.

The foreign exchange loss increase of \$4,480,297 incurred during the first half of 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. With two mines now producing in Brazil, it is possible that the wet season, corresponding to part of the first and fourth quarters, could have some effect on diamond operations.

Liquidity

As at June 30, 2008, the Company had working capital of \$4,263,156, the cash and cash equivalent portions of which was \$3,075,034. Cash equivalents mainly relate to funds kept in a Scotia Premium T-Bill Fund, which fund is administered by Scotia Securities. The Scotia Premium T-Bill Fund invests primarily in Government of Canada treasury bills and other short-term debt instruments guaranteed by the Government of Canada. Vaaldiam has never invested in asset backed commercial paper. As at June 30, 2008, the Company had restricted cash in the amount of \$860,005 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 June 30, 2008 were recorded at \$1,229,252. Accounts payable and accrued liabilities at June 30, 2008 amounted to \$2,317,751.

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.

During August 2007, the Company completed a financing which provided gross proceeds of \$26,325,000 from the issuance of 29,250,000 subscription receipts at \$0.90 per receipt, each subscription receipt being comprised of one common share and one-half of one common share purchase warrant, each whole warrant exchangeable for one additional common share of the Company at an exercise price of \$1.20 on or before August 15, 2009. The net cash proceeds of this financing after financing expenses was \$24,450,985.

In December 2007, Vaaldiam repaid Elkedra project debt related to the development of the Chapada Mine of \$7,198,482 and which bore interest of 10% as a result of which the Chapada Mine became debt free.

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. An amount of US\$1,500,000 of the line of credit was drawn down on July 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 expires on September 17, 2008, each 2 rights entitle the holder to acquire one Vaaldiam share at \$0.15. Assuming all the rights are exercised, the net proceeds from the rights issue would be approximately \$16.2 million.

Vaaldiam is dependent on the junior mining 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 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.

Capital Resources

As at August 14, 2008, Vaaldiam had cash of approximately \$1.4 million. As at August 14, 2008 Vaaldiam had a revolving line of credit of \$2,500,000 of which \$1,500,000 has been drawn. On August 13, 2008, the Company filed the rights issue prospectus referred to above. Assuming all the rights are exercised, the net proceeds of the rights issue would be approximately \$16.2 million.

A potential source of additional capital would be the exercise of options. As at August 14, 2008, the Company had issued the following unexercised options.

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
1,330,000	November 20, 2008	\$0.50	\$ 665,000
100,000	February 20, 2009	\$0.50	50,000
525,000	September 20, 2009	\$0.45	236,250
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
585,000	November 8, 2010	\$0.84	491,400
2,030,000	January 16, 2011	\$0.75	1,522,500
75,000	April 18, 2011	\$1.37	102,750
50,000	June 9, 2011	\$0.97	48,500
461,250	August 25, 2011	\$1.44	664,200
146,250	December 27, 2011	\$0.95	138,938
2,575,000	January 24, 2012	\$0.85	2,188,750
180,000	February 23, 2012	\$1.02	183,600

843,750	April 2, 2012	\$0.95	801,562
6,920,000	February 26, 2013	\$0.45	3,114,000
625,000	August 7, 2013	\$0.17	106,250
Total: 18,383,250			Total: \$11,640,110

An additional potential source of capital would be the exercise of warrants. As at August 14, 2008, the Company had issued the following unexercised warrants.

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
173,334	September 3, 2008	\$0.66	114,400
37,316	September 28, 2008	\$1.77	66,049
3,250,000	September 30, 2008	\$0.58	1,885,000
344,363	December 21, 2008	\$1.33	458,003
217,670	December 21, 2008	\$1.00	217,670
1,755,000	February 15, 2009	\$0.90	1,579,500
900,000	February 23, 2009	\$1.33	1,197,000
126,000	February 23, 2009	\$1.00	126,000
270,000	February 27, 2009	\$0.55	148,500
360,361	March 9, 2009	\$1.00	360,361
6,350,000	March 30, 2009	\$1.33	8,445,500
900,000	March 30, 2009	\$1.00	900,000
1,033,750	March 30, 2009	\$1.33	1,374,888
128,375	March 30, 2009	\$1.00	128,375
64,188	March 30, 2009	\$1.33	85,370
14,625,000	August 15, 2009	\$1.20	17,550,000
877,500	August 15, 2009	\$1.20	1,053,000
131,895	August 16, 2009	\$1.00	131,895
1,040,000	May 13, 2010	\$1.40	1,456,000
104,000	May 13, 2010	\$1.89	196,560
Total: 32,688,752			Total: \$37,474,071

There is no assurance that the capital resources required by the Company will be available.

Off Balance Sheet Arrangements

Under the terms of the Company's leases, the Company is committed to pay an amount of \$305,483 over a period of between 1 month to 27 months in respect of property leases in Canada and Brazil.

Transactions with Related Parties

During 2004, as part of the \$2,580,000 private placement of units and flow-through shares completed during September, four directors subscribed for a total of 531,975 units of Vaaldiam, at \$0.45 per unit for a total of \$212,790; each unit consisting of one common share and one half of a common share purchase warrant; each whole warrant being exercisable to acquire one common share of the Company at an exercise price of \$0.50 per share on or before the twelve months anniversary of date of issue. The funding to acquire the units was provided by initially short-term interest free loans extended by the Company to the four directors. 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 the quarter ended September 30, 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. All unpaid share purchase loans to directors since January 1, 2006 bear interest at Canadian prime rate plus 3%. As at December 31, 2006 all directors' loans relating to the purchase of shares save one loan of \$100,000, had been 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. 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 18.4% of Vaaldiam's issued and outstanding shares and is Vaaldiam's largest shareholder.

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 are exercisable at \$1.33 per Vaaldiam share on or before March 30, 2009.

During the six months ended June 30, 2008 an amount of \$229,748 was paid as consulting fees to a company controlled by Mr. Sam Randazzo and Mr. Donald Best, Vice Presidents of Business Development and Technical Services, respectively.

Senior Management

On July 9, 2008, Kenneth Johnson, the President and Chief Executive Officer of Vaaldiam assumed the addition title of Chairman on the resignation of Mr. Peter Marrone as Chairman who resigned due to personal commitments and availability. While Mr. Johnson will continue as President in the interim, Vaaldiam is currently seeking a new President and expects to complete an appointment shortly. Mr. Jon Hsuan, a graduate of the Royal School of Mines in London, England with 24 years of diamond mining experience, was appointed Vice President, Operations and will manage the Duas Barras, Peçanha and Chapada mines.

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.

Management Report

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of June 30, 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 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 Chairman 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 reviewed the internal control procedures in existence as of June 30, 2008, and concluded that the Company's internal controls over financial reporting have been designed 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 most recent interim period, 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 six months ended June 30, 2008, \$1,464,085 was expensed as the cost of options issued under the Company's Stock Option Plan. The amount of \$1,464,085 expensed or debited on the Consolidated Statement of Loss and Deficit was offset by a corresponding credit of the same amount to the Stock Option Account included in Shareholder's Equity, as a result of which, on a net basis, the expensing of stock options had no effect on the overall Shareholder's Equity of the Company.

An additional critical accounting estimate related to the assumed recoverability of the carrying value of mineral properties which 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. As at June 30, 2008, mineral properties were reflected in the Company's balance sheet at \$130,686,616.

The preliminary allocation of the purchase prices for the Elkedra and Great Western acquisitions are 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.

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 with future changes in Canadian GAAP.

(a) 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 has been no sale of gold to date.

(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.

- (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 Canadian GAAP to IFRS on the consolidated financial statements and will develop a conversion implementation plan.

Non-GAAP Measure

Throughout this document, we have provided measures prepared according to Canadian GAAP, 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 and 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

An amount of \$110,060 of the Company's cash assets as at June 30, 2008 were invested in a Scotiabank, mainly Government of Canada, Treasury Bills Account which is considered to be a low risk interest bearing account.

Disclosure of Outstanding Share Data

As at August 14, 2008, the following were the undiluted and fully diluted common shares outstanding:

Undiluted 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 placement	7,277,429
Shares issued to acquire RST	3,374,185
Shares cancelled	(200,500)
Undiluted common shares outstanding	224,453,735
Shares issuable on exercise of options	18,383,250
Shares issuable on exercise of warrants	32,688,752
Fully diluted shares outstanding as at August 14, 2008	275,525,737