

Management's Discussion and Analysis

Readers of the following Management's Discussion and Analysis should refer to Vaaldiam Resources Ltd.'s ("Vaaldiam" or the "Company") unaudited comparative consolidated financial statements for the nine months ended September 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 November 6, 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

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, exploitation 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, exploitation and exploration successes, continued availability of capital and financing and general economic, 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.

Cautionary Note to Investors Concerning Estimates of Indicated Resources

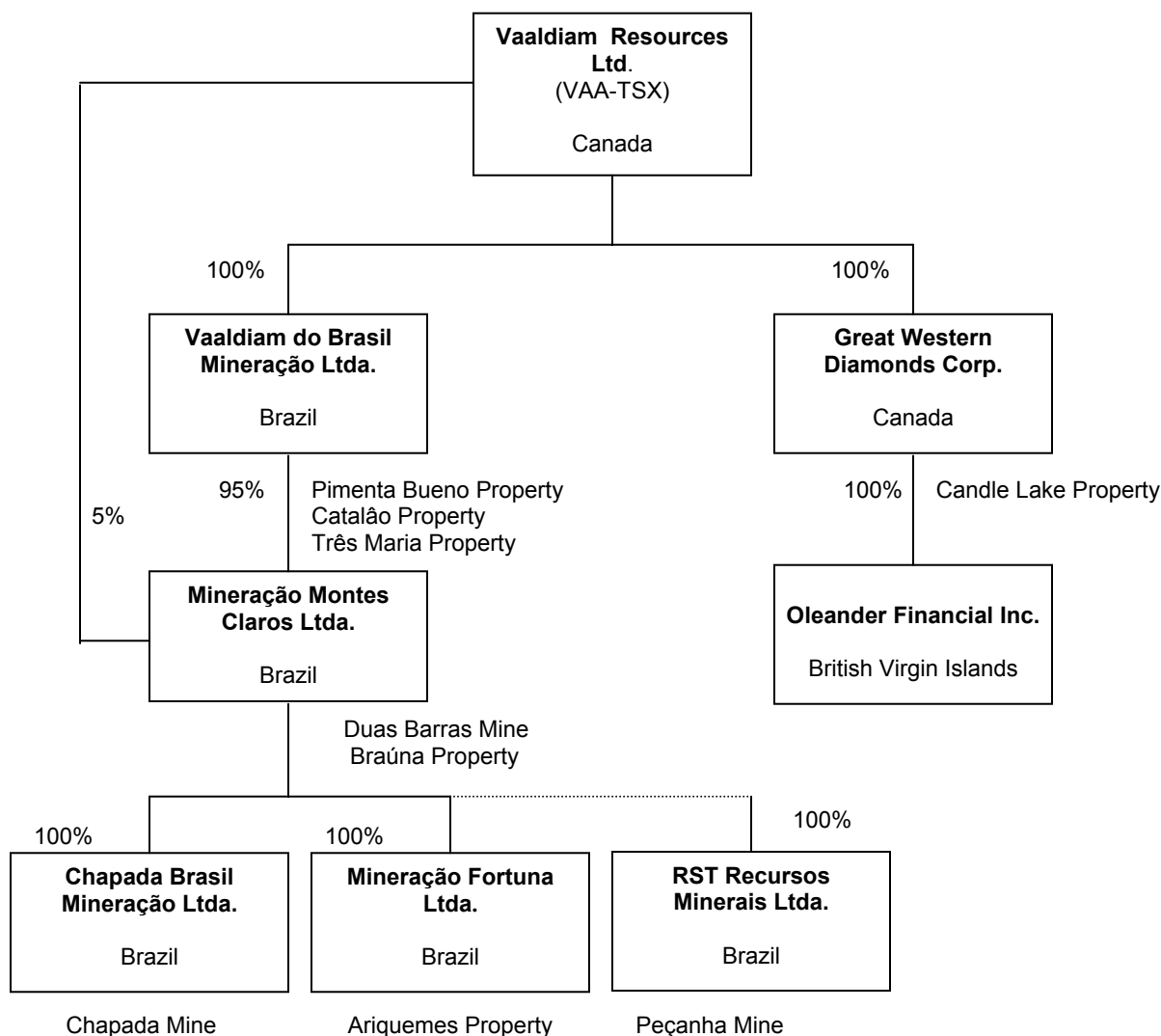
*This discussion uses the term "indicated resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. **Investors are cautioned not to assume that any part or all of mineral deposits in this category will ever be converted into reserves.***

Cautionary Note to Investors Concerning Estimates of Inferred Resources

*This discussion uses the term "inferred resources". The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred resources" have a great deal of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of a mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies, except in rare cases. **Investors are cautioned not to assume that any part or all of mineral deposits in this category will ever be converted into reserves.***

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 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. During the third quarter of 2008 Mineração Fortuna Ltda. (“Fortuna”) was transferred to Montes Claros. Vaaldiam’s Brazilian corporations will continue to be restructured to achieve administrative and tax efficiency.

On July 1, 2008 Vaaldiam entered into an agreement to acquire RST Recursos Minerais Ltda. (“RST”). As at November 6, 2008, the remaining amounts that are required to be paid under the agreement totalled US\$8.5 million.

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

Vaaldiam's Response to the Global Financial Crisis

The pace and severity of the current economic downturn is unsurpassed in the experience of Vaaldiam management. Notwithstanding this, 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 reduction of administrative and mining costs through significant workforce reduction and productivity improvements;
- The sale of non-core exploration 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 capital.

Vaaldiam is currently negotiating the raising of debt finance in that the raising of equity capital is neither possible nor feasible in the severely depressed equity markets that we are experiencing. While the terms associated with this proposed debt finance would be difficult, without such finance, it may not be possible for the Company to continue as a going concern. There is no certainty that this debt financing will be obtained.

Production

During the nine months ended September 30, 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 18,234.47 carats of diamonds and 385 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.

Duas Barras Mine, Minas Gerais, Brazil

Since commercial diamond production commenced on September 1, 2007, to September 30, 2008 a total of 243,983 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 32,484 carats of diamonds with an average weight per stone of 0.22 carats. The recovered diamond grade of gravel treated to September 30, 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 nine months ended September 30, 2008 amounted to 146,308 bcm resulting in the recovery of 13,428 carats of diamonds, a recovered grade of 0.09 cts per bcm, with an average weight per stone of 0.18 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 the temporary 2008 shutdown of the Duas Barras plant to enable plant modifications and maintenance. Diamond production during the third quarter of 2008 was higher than the previous quarter and is reflective of the processing of larger volumes of the lower grade "upper gravel sequence" during the second quarter coupled with the loss of production over a period of 28 days during the second quarter to allow for the installation of two Flow Sort[®] X-Ray diamond recovery units. Diamond production during the third quarter was also influenced by a 19 day plant shutdown to allow for the installation of a dense media recovery circuit, maintenance to the feed preparation circuit and the addition of a fine diamond circuit to allow the processing of diamond-bearing tailings. The reduction of the minimum screening size in the feed preparation circuit of the plant allows the recovery of small, fine diamonds which has had a positive effect on the recovered grade during the later half of September, and has contributed to the lower average stone size produced.

Overburden stripping activities during the third quarter of 2008 decreased by 25% over the previous quarter as mining operations moved from stripping operations to the excavation of gravel in the new mining block. The recovered diamond grade increased during the later half of September as the depth of the open pit advanced and higher grade gravels were exposed. The recovered diamond grade was also positively impacted due to the addition of the fine diamond circuit. The excavation and processing of higher grade gravels, and the recovery of fine diamonds, is reflected in the production results for the month of October, subsequent to the end of the third quarter, where the recovered diamond grade increased to 0.12 cts per bcm for the month, the same grade as was experienced during the first quarter of 2008; however, a 71% increase over the grade experienced during the second quarter of 2008 and a 50% over the grade experienced during the third quarter of 2008.

The following table provides a quarterly summary of the diamond production of Duas Barras between September 1, 2007 and September 30, 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	54,572	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
Total	678,639	243,983	149,581	32,484	0.22	0.13

⁽¹⁾ Production for month of September only.

The Duas Barras mine sold 5 parcels of diamonds during the first nine months of 2008. A total of 100,700 diamonds weighing a total of 25,219.05 carats were sold for gross total proceeds of US\$4,131,007 or US\$163.81 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 nine months ended September 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	\$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
Total	100,700	25,219.05	\$4,131,007	\$163.81	0.25

A total of 5,730 carats of diamonds were held in inventory at the end of the third quarter of 2008, and represent diamond production at Duas Barras during the entire quarter and the latter part of the second quarter of 2008. Production held in inventory has been valued at the lower of the cost of production and net realizable value and is therefore not reflected in the sales proceeds for the quarter. In addition to the diamond sales during the nine months ended September 30, 2008, a total of 939.1 ounces of gold was sold for US\$811,672 or US\$864.40 per ounce.

During the third quarter of 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 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 the installation of the dense media circuit, maintenance costs and the temporary loss of production for the period of 19 days during August are reflected in the operational costs for the quarter, 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 trading at an average exchange rate of approximately 1.54 reals to one Canadian dollar. This rate represents 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 1.85 reals to one Canadian dollar which is expected to have a significant positive impact on the operating costs (expressed in Canadian dollars) at the Duas Barras Mine. During the nine months ended September 30, 2008 the Duas Barras Mine recorded an operating loss of \$2,593,972 primarily as a result of reduced gravel production arising from maintenance shutdowns at the mine and the treatment of lower grade ore. The mine operating loss of \$2,593,972 recorded in the financial statements in accordance with Canadian GAAP is after non-cash amortization of \$1,569,411. 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 nine months ended September 30, 2008 was approximately \$1,024,561.

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 Mineraiis 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, and reduce the unit costs of operation due to the larger volume of gravels being processed. If completed, 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.

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 agreed to 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. This due date has been extended pending the outcome of the Company's financing efforts. The Company is currently in discussions to renegotiate the terms of the RST acquisition.

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, however as the rights issue was unsuccessful

due to adverse market conditions, Vaaldiam is endeavouring to renegotiate the terms of the RST acquisition. There can be no guarantee that the acquisition of RST will be completed.

As at September 30, 2008 diamond inventory at the Peçanha mine amounted to 4,726.63 carats.

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, to finance and convert the mining operation from contract mining to a company owned mining operation. The initiatives underway are 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 is 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 economic conditions are likely to result 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 third quarter of 2008. The following table provides a quarterly summary of the diamond production of Chapada during the nine months ended September 30, 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
Sep. 30	-	-	-	-	-
2008 To Date	198,291	9,609	4,803	0.50	0.024

During the nine months ended September 30, 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 during the nine months ended September 30, 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 nine months ended September 30, 2008.

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

Mining and processing operations were suspended at the Chapada Mine on June 30, 2008 at the end of the term of the agreement with the contracting company that was carrying out mining operations at Chapada on behalf of the Company. As a result of the suspension of the operations at the mine, the operation incurred non-recurrent expenditures of approximately \$280,000 during the third quarter of 2008 which reflected one-time charges relating to employee terminations and severance, environmental reclamation, and demobilization of the contractors mining equipment. These non-recurrent expenditures are reflected in the operational costs for the quarter and increased the operating loss for the period. The operational results were also adversely impacted by the aforementioned strong Brazilian currency. During the nine months ended September 30, 2008 an operating loss of \$3,548,205 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 basis, after adding back the non-cash amortization expenses, the cash based operating loss at the Chapada mine would have been \$2,809,329 for the nine months ended September 30, 2008.

The carrying value of the Chapada mine on Vaaldiam's financial statements was reduced by \$5,608,425 to \$2,499,000 during the quarter ended September 30, 2008, as losses recorded to date at Chapada resulted in an impairment charge to the carrying value of the operation. In addition, the carrying value of the Chapada exploration properties was reduced by \$64,462,600 to \$2,861,730 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 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 8.26 carats, inferring a recovered grade of 21.0 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

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)
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 Weight (tonnes)	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 to process the bulk sample and is in the process of being shipped to the site. 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.

The following is a schedule of 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

During the nine months ended September 30, 2008 a total of \$1,129,538 was spent on the Braúna project bringing total expenditure to date on this project to \$10,836,595 including acquisition costs of \$5,951,664.

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. The Aroeira concession is carried on Vaaldiam's books at an amount of \$169,528 representing the expenditures incurred up to September 30, 2008.

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

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 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.

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 September 30, 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 3.78 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 to date an 84.68 dry tonne sample has been processed (99.66 wet tonnes) from the Cosmos 1 kimberlite resulting in an inferred grade of 2.5 cpht for the Cosmos 1 pipe compared with the 3.78 cpht inferred from Rio Tinto's sample. An additional 91.3 wet tonne kimberlite from Cosmos 1 is being processed while a further 52 wet tonne kimberlite awaits processing from the Cosmos 2 pipe.

During the nine months ended September 30, 2008, the Company's Pimenta Bueno property exploration expenditures were \$540,081 bringing total expenditures by Vaaldiam on the property to date to \$5,610,921 including \$265,311 of acquisition costs.

Ariquemes Property

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. Vaaldiam intends to relinquish part of this large property in order to concentrate on those areas believed to have the most potential for kimberlite discovery. As a result, the Ariquemes Property has been written down by \$12,923,314 with a corresponding future tax recovery to \$3,065,682 as at September 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, Brasília. 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 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 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 September 30, 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 expenditures incurred up to September 30, 2008 was written off.

Exploration – Canada

Candle Lake Property, Saskatchewan, Canada

Vaaldiam acquired 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.

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) 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 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 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.

The Candle Lake property is carried on Vaaldiam’s books at \$14,932,594 as at September 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 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 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 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. The Centennial Project is carried on Vaaldiam's books at \$512,688 at September 30, 2008.

Alberta Area Properties, 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. The Alberta area properties were carried on Vaaldiam's books at \$682,040 at September 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 ground magnetic geophysical survey and two core holes totalling 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 recorded in Vaaldiam's books at \$671,065 at September 30, 2008.

SELECTED FINANCIAL INFORMATION

Nine months Ended September 30	2008	2007
Sales	\$ 6,848,596	\$ -
Net loss - total	70,004,618	4,827,943
- per share	0.33	0.06
Cash and cash equivalents	467,935	5,168,546
Restricted cash	432,604	173,730
Inventories	1,734,348	432,053
Working capital (deficit)	(12,540,051)	5,265,696
Property, plant and equipment	15,951,072	2,672,590
Mineral properties	51,910,439	19,817,670
Total assets	74,071,139	48,797,900
Line of credit	2,588,800	-
Future tax liabilities	2,372,159	1,851,351
Shareholders' equity	55,263,545	27,370,457
Cash dividends per share	-	-

Summary of Quarterly Results

Quarters Ended	Sales	Income (Loss)	
		Total	Per Share
September 30, 2008 ⁽¹⁾	\$ 646,136	\$ (58,205,978)	\$ (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)
December 31, 2006	-	(926,003)	(0.01)

1. Includes impairment charges and write-down of exploration properties.

During the nine months ended September 30, 2008 a loss of \$70,004,618 or \$0.33 per share was recorded compared to a loss of \$4,827,943 or \$0.06 per share in the corresponding period of the prior year. The increased loss of \$65,176,675 arose primarily from an impairment charge associated with the Chapada mine of \$72,607,574 and an increased write-down of exploration properties of \$11,688,488, a mine operating loss of \$6,142,177, an increased corporate and general expense of \$2,303,104, an increase in amortization of \$125,646, a reduction in interest income (net of interest expenses) of \$108,920, lower stock based compensation expense of \$17,866 and an increase of \$420,939 in foreign exchange loss. This was offset by an increase in income tax recovery of \$28,426,617 as a result of the write-down and impairment of some of the Brazilian assets.

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. Initiatives to significantly reduce corporate and general expenses, and operating expenses through the reduction of personnel are being implemented during the fourth quarter of 2008

The gross mining loss resulted from an operating loss of \$2,593,972 recorded at the Duas Barras mine in accordance with Canadian GAAP, after non-cash amortization of \$1,569,411. On a non-GAAP basis, after adding back the non-cash amortization expense, the cash based operating loss at Duas Barras mine for the nine months ended September 30, 2008 was approximately \$1,024,561. An operating loss of \$3,548,205 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 basis, after adding back the non-cash

amortization expenses, the cash based operating loss at the Chapada mine would have been \$2,809,329 for the nine months ended September 30, 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 nine months ended September 30, 2008 and 2007, amounts of \$1,513,191 and \$1,495,325 respectively were incurred relating to stock based compensation expenses. During the nine months ended September 30, 2008 an amount of \$40,726 was written off relating to the Peerless and Birch Mountain Properties in Alberta. In addition, during the nine months ended September 30, 2007, an amount of \$1,650,901 was written off representing exploration expenses incurred with respect to the Coronation Gulf property in 2007. The non-cash impairment charge of \$72,607,574 is associated with the \$8,144,974 charge from the Chapada mine and equipment and the \$64,462,600 charge from the Chapada exploration properties.

The foreign exchange loss increase of \$420,939 incurred during the nine months to September 30, 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.

Liquidity

As at September 30, 2008, the Company had a working capital deficit of \$12,540,051, the cash portion of which was \$467,935. Vaaldiam has never invested in asset backed commercial paper. As at September 30, 2008, the Company had restricted cash in the amount of \$432,604 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 September 30, 2008 were recorded at \$1,734,348. Accounts payable and accrued liabilities at September 30, 2008 amounted to \$5,894,668, which included approximately US\$1.4 million to a supplier of RST as part of the RST acquisition. This amount and an amount of approximately US\$7.1 million owing to two other companies associated with the vendor of RST, make up the remaining US\$8.5 million owing on the RST acquisition transaction.

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.

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.

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.

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 currently negotiating the raising of debt finance in that the raising of equity capital is neither possible nor feasible in the severely depressed equity markets that we are experiencing. While the terms associated with this proposed debt finance would be difficult, without such finance, it may not be possible for the Company to continue as a going concern. There is no certainty that this debt financing will be obtained.

Capital Resources

As at November 6, 2008, Vaaldiam had cash of approximately \$1.3 million and a revolving line of credit of \$2,500,000 which has been drawn in full.

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
1,330,000	November 20, 2008	\$0.50	\$ 665,000
50,000	February 20, 2009	\$0.50	25,000
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
2,450,000	January 24, 2012	\$0.85	2,082,500
180,000	February 23, 2012	\$1.02	183,600
843,750	April 2, 2012	\$0.95	801,562
6,720,000	February 26, 2013	\$0.45	3,024,000
625,000	August 7, 2013	\$0.17	106,250
Total: 18,008,250			Total: \$11,525,110

An additional potential source of capital could be the exercise of warrants and the Company is considering requesting regulatory approval for the repricing of the exercise price of these warrants. As at November 6, 2008, the Company had issued the following unexercised warrants.

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
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: 29,228,102			Total: \$35,406,211

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

Vaaldiam is currently negotiating the raising of debt finance in that the raising of equity capital is neither possible nor feasible in the severely depressed equity markets that we are experiencing. While the terms associated with this proposed debt finance would be difficult, without such finance, it may not be possible for the Company to continue as a going concern. There is no certainty that this debt financing will be obtained.

Off Balance Sheet Arrangements

Under the terms of the Company's leases, the Company is committed to pay an amount of \$234,873 over a period of between 1 month to 24 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 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.

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.

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 nine months ended September 30, 2008 an amount of \$336,326 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. Mr. Randazzo is also a director of Vaaldiam.

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.

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.

A proposed transfer of ownership of the Canadian assets to Vaaldiam's shareholders (press release of August 20, 2008) has been deferred until market conditions improve.

Management Report

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of September 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 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 reviewed the internal control procedures in existence as of September 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 nine months ended September 30, 2008, \$1,513,191 was expensed as the cost of options issued under the Company's Stock Option Plan.

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 September 30, 2008, mineral properties were reflected in the Company's balance sheet at \$51,910,439.

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

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) 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 was 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.

(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, 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 of November 6, 2008 the Corporation had no investment in financial or other instruments.

Disclosure of Outstanding Share Data

As at November 6, 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 placements	27,277,429
Shares issued to acquire RST	3,374,185
Rights Issue	708,933
Shares cancelled	(310,500)
Undiluted common shares outstanding	245,052,668
Shares issuable on exercise of options	18,008,250
Shares issuable on exercise of warrants	29,228,102
Fully diluted shares outstanding as at November 6, 2008	292,289,020