



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2009**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Vaaldiam Resources Ltd. ("Vaaldiam" or the "Company") and should be read in conjunction with the unaudited comparative consolidated financial statements and related notes for the three months ended March 31, 2009. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar figures included therein and in the following MD&A are quoted in Canadian dollars unless otherwise specified. The following MD&A is prepared as of May 11, 2009. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

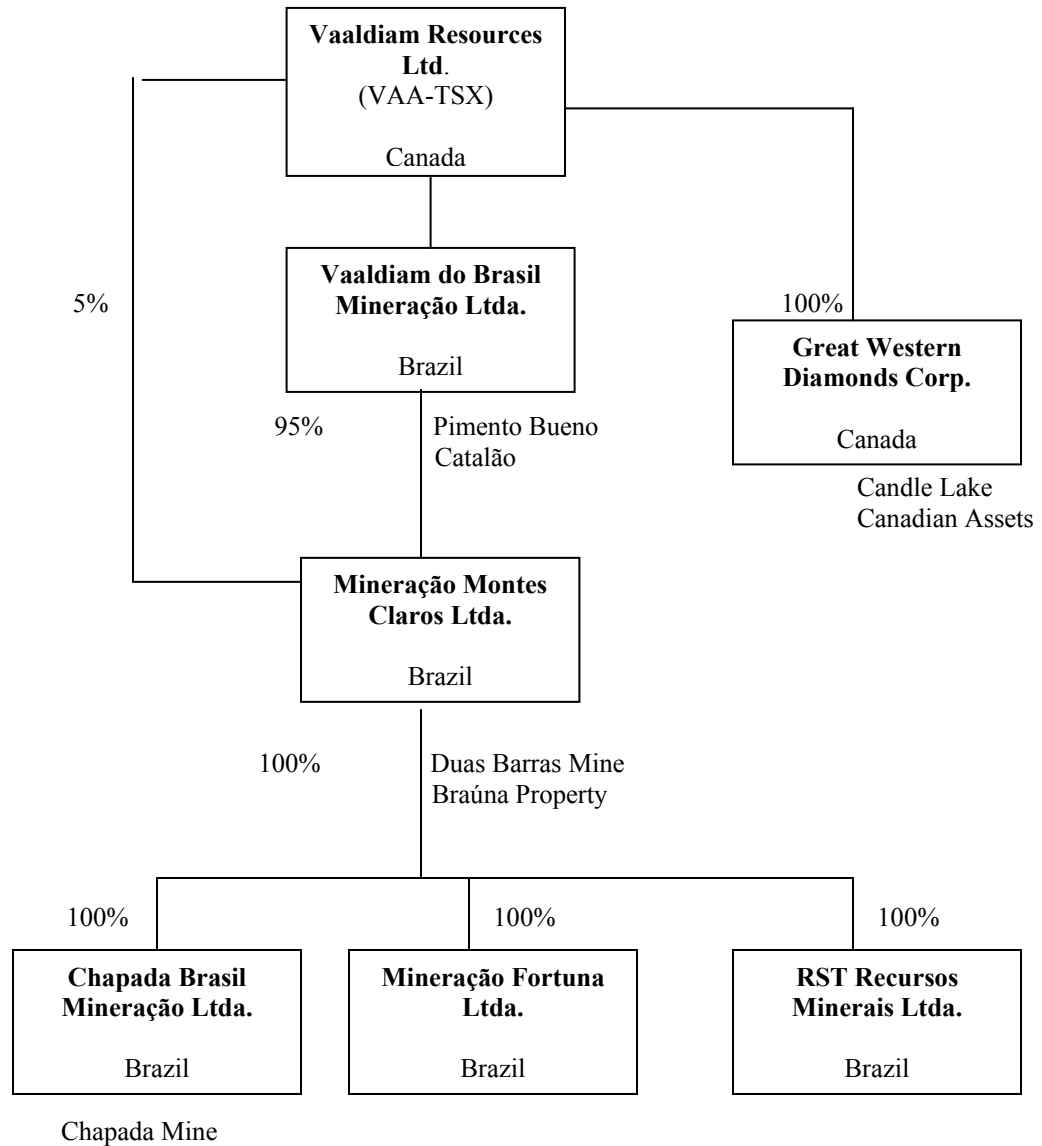
This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, operating activities and events or developments that the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

OVERVIEW

Vaaldiam 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 currently owns two alluvial diamond mines in Brazil, 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. Both mines are currently shut down on care and maintenance due to weak rough diamond markets related to the global economic crisis. The Company is also focused on the development of the Braúna Diamond Project, which is the most advanced of Vaaldiam's kimberlite projects. Vaaldiam's operations are conducted directly and through its subsidiaries whose relationship to Vaaldiam is reflected in the chart on the following page.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS



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

THE ROUGH DIAMOND MARKET

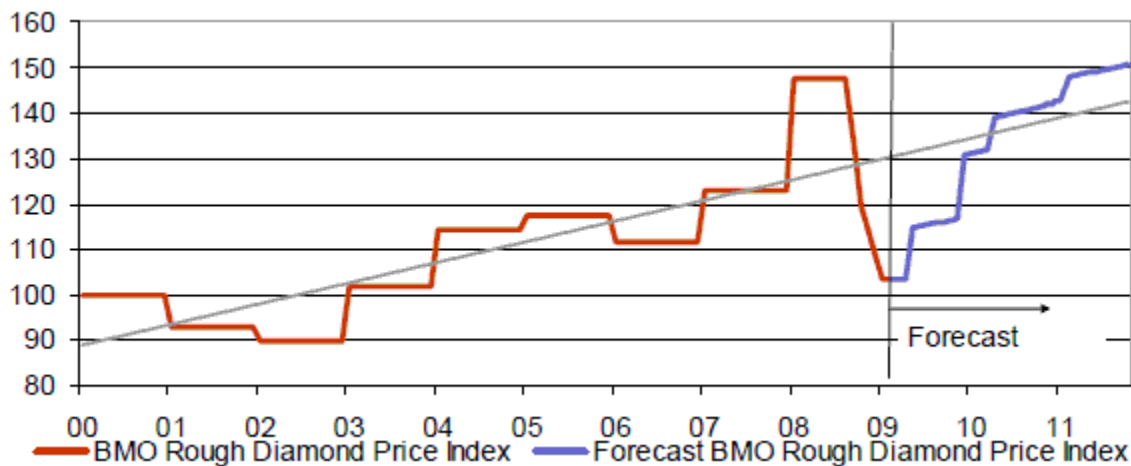
Between August 2008 and January 2009, rough diamond prices declined by almost 50% in response to the global economic crisis and tight credit markets associated with the diamond trading centres. The market for polished diamonds also slipped 15% to 20% in response to weakened retail demand. The dramatic drop in rough diamond prices was a direct result of diamond manufacturers’ and retailers’ inability to access credit to support their on-going operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

In response to the weak rough diamond markets, most of the producers like Vaaldiam either suspended or reduced production, or held production in inventory, in an effort to reduce operating losses and also to reduce the supply of rough diamonds coming to market. This significant production cutback has allowed manufacturers and retailers to consume and reduce their inventories to a level where they now have to buy rough diamonds on the market to supply their manufacturing operations. As a result of this renewed demand, rough diamond prices are on the increase, with average prices increasing 20% from January 2009 levels. While this recent increase is certainly encouraging, producers still need to exercise caution regarding restarting production, so as to not slow or dampen the increased demand through oversupply of the market with mine production.

The current consensus view within industry suggests that rough prices will continue to recover during 2009, as inventories deplete as a result of manufacturers increasing production, which will in turn increase demand on the rough diamond market. . In a recent research report BMO Capital Markets forecasts "a gradual recovery in diamond prices starting midyear (2009)." BMO expects that rough diamond prices should "return to the upward trend of the past decade by early 2010". (International Diamond Exchange News, www.idexonline.com & BMO Capital Markets Global Mining Research, March 16, 2009).



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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

OPERATIONS***PRODUCTION***

Vaaldiam owns two alluvial diamond mines in Brazil, 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. Both mines are currently shut down on care and maintenance. 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, and has remained suspended due to weak rough diamond markets. Mining operations were suspended at the Duas Barras Mine in October due to weak rough diamond markets. Group production during 2008 amounted to 20,192.92 carats ("cts") of diamonds and 438.9 ounces of gold.

Duas Barras Mine, Minas Gerais, Brazil

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

During the three month period ended 31 March 2009, no commercial diamond or gold production was undertaken as the Duas Barras mining operations had been suspended due to the weak diamond markets. Gravel volume treated during the year ended December 31, 2008 amounted to 163,936 bcm resulting in the recovery of 15,389 carats of diamonds, a recovered grade of 0.09 cts per bcm, with an average weight per stone of 0.15 carats. Diamond production during 2008 was lower than the last four months of 2007 as a result of the advancement of the mining operations during 2008 to a new mining panel, the consequent processing of lower grade "upper gravel sequence", coupled with a temporary shutdown of the Duas Barras plant in the second and third quarters to enable plant modifications and maintenance and the suspension of the mine from November 2008 due to the softening of the diamond market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a quarterly summary of the diamond production of Duas Barras between September 1, 2007 and December 31, 2008. There was no production during the quarter ended 31 March 2009.

Quarter Ended	Overburden Removed (bcm)	Gravel Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Grade (carats per bcm)	
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	
2007	132,631	97,675	73,549	19,056	0.26	0.20	
Mar. 31	134,690	55,572	21,732	6,539	0.30	0.12	
Jun. 30	235,538	30,555	11,177	2,211	0.20	0.07	
Sep. 30	175,780	61,181	43,123	4,678	0.11	0.08	
Dec. 31	20,075	16,628	29,451	1,961	0.07	0.12	(2)
2008	566,083	163,936	105,483	15,389	0.15	0.09	
Mar. 31	-	-	-	-	-	-	(3)
2009	-	-	-	-	-	-	
Total	698,714	261,611	179,032	34,445	0.19	0.13	

(1) Production for month of September only.

(2) Production for month of October only.

(3) Operations suspended due to weak diamond markets.

The Duas Barras mine sold one parcel of diamonds during the first three months of 2009. A total of 11,960 diamonds with a total weight of 854.98 carats were sold in February 2009 and returned gross sales proceeds of US\$35,658, or US\$41.71 per carat. The sales results were adversely impacted by the global credit crisis, which caused a significant decline in rough diamond prices during the first three months of 2009. Also impacting the result of the parcel was the presence of a significant volume of small diamonds which were recovered during the retreatment of processing plant tailings. Approximately 80% of the diamonds recovered weighed less than 0.06 carats per stone, resulting in a low average stone size of the parcel of 0.07 carats per stone as opposed to previous parcels sold during the first half of 2008 which had an average stone size of 0.25 carats per stone. During the period January 1, 2008 to March 31, 2009 a total of 32,863.26 carats of diamonds were sold for gross sales revenue of US\$4,690,292. The following table presents the diamond sales conducted during the period January 1, 2008 to March 31, 2009.

Quarter ended	Total Stones	Total Carats	Gross Total Value (US\$)	Average Value/ct (US\$)	Average Stone Size (ct)
Mar. 31	71,648	18,418.07	\$2,947,224	\$160.02	0.26
Jun. 30	15,383	4,729.23	851,261	180.00	0.31
Sep. 30	13,669	2,071.75	332,522	160.00	0.15
Dec. 31	86,131	6,789.23	523,627	77.13	0.08
2008	186,831	32,008.28	4,654,634	145.42	0.17
Mar. 31	11,960	854.98	35,658	41.74	0.07
2009	11,960	854.98	35,658	41.74	0.07
Total	198,791	32,863.26	\$4,690,292	\$142.72	0.17

In addition to the diamond sales during the year ended December 31, 2008, a total of 1,116.4 ounces of gold was sold for US\$942,699 or US\$844.41 per ounce. There were no gold sales during the first quarter of 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the quarter ended March 31 2009, the Duas Barras Mine recorded an operating loss of \$282,766 representing on-going care and maintenance costs and one-time expense items related to staff reductions.

The Peçanha Diamond Mine of RST

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

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

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

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

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

Chapada Mine, Mato Grosso, Brazil

Mining operations at the Chapada Mine remained suspended during the first three months of 2009. Operations were suspended at the end of June 2008, the end of the contract mining term, in order to finance and convert the mining operation from contract mining to a company owned mining operation. These initiatives were expected to result in a reduction of operating costs, the improvement of diamond recovery and increased production. One of the key initiatives to reduce operating costs was the proposed installation of an in-pit screening plant in the mining area to reduce the cost of ore transport. Such initiatives have been deferred until financing is available and rough diamond markets rebound to levels resulting in a profitable operation. In the meantime the mine has been placed on a care and maintenance basis with a minimum of staff and security personnel.

The following table provides a quarterly summary of the diamond production of Chapada during each quarter of 2008 and 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarter Ended	Gravel Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Grade (carats per bcm)
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
2007	565,376	32,320	17,892	0.55	0.032
Mar. 31	90,470	5,034	2,311	0.46	0.026
Jun. 30	107,821	4,575	2,492	0.54	0.023
Sep. 30	-	-	-	-	-
Dec. 31	-	-	-	-	-
2008	198,291	9,609	4,803	0.50	0.024
Mar. 31	-	-	-	-	-
Total	763,667	41,929	22,695	0.54	0.030

During the year ended December 31, 2008, five parcels of diamonds were sold from the Chapada mine amounting to 5,262 carats in total which realized gross proceeds of US\$2,516,563 or US\$478.29 per carat. During May 2008 a diamond weighing 30.96 carat was recovered from the Chapada mine which was later sold for US\$230,033 or US\$7,430 per carat. Overall, the average sales price per carat increased by 20.3% to US\$478.29 per carat for the six months of operations during the year ended December 31, 2008 compared with an average sales value of US\$397.53 per carat for the 2007 sales. The following table reflects the diamond sales during the period January 1, 2008 to March 31, 2009.

Quarter ended	Total Stones	Total Carats	Gross Total Value	Average Value/ct (US\$)	Average Stone Size (ct)
Mar. 31	4,863	2,310.50	\$944,970	\$408.99	0.48
Jun. 30	4,638	2,432.89	1,413,588	581.03	0.52
Sep. 30	1,043	518.21	158,005	304.91	0.50
Dec. 31	-	-	-	-	-
2008	10,544	5,261.60	\$2,516,563	\$478.29	0.50
Mar. 31	-	-	-	-	-
2009	-	-	-	-	-
Total	10,544	5,261.60	\$2,516,563	\$478.29	0.50

During the quarter ended March 31, 2009, the Chapada Mine recorded an operating loss of \$212,465 representing on-going care and maintenance costs and one-time expense items related to staff reductions.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Braúna Project, Bahia, Brazil

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

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

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

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 targeted and is designed to confirm the diamond content of the Braúna 3 pipe and its associated dike systems, and produce a parcel of diamonds for valuation purposes. A new 10 tonne per hour dense media recovery plant has been constructed in South Africa to process the bulk sample and will be shipped to the site as soon as sufficient working capital is available. Information generated during this program, coupled with the information from the recently completed delineation drilling, would provide the basis for the feasibility study.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

During the quarter ended March 31 2009 a total of \$32,332 was spent on the Braúna project, including Aroeira and the Monte Alegre concessions, bringing total expenditure to date on this project to \$11,108,406 including acquisition costs of \$5,951,664.

Pimenta Bueno Property, Rondônia, Brazil

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

Ariquemes Property, Rondônia, Brazil

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

Catalão Property, Goiás, Brazil

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Catalão Property is carried on Vaaldiam's books at a cost of \$9,265 representing the expenditures incurred up to March 31, 2009.

Três Marias Project

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

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

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

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

Presently, work is focusing on integrating geophysical, geotechnical, drilling and analytical results for the C29/30 kimberlite in order to complete a 3D geological model of the kimberlite body. The 2007/8 winter drilling camp was fully demobilized in August, 2008. Work involving the rehabilitation of drilling sites was completed during the first three months of 2009.

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

As at March 31, 2009, the Candle Lake Property is carried on Vaaldiam's books at a cost of \$5,131,783.

Centennial Project, Saskatchewan, Canada

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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

As at March 31, 2009, the Centennial Property is carried on Vaaldiam's books at a cost of \$255,001.

Alberta Area Properties, Alberta, Canada

The Alberta Properties were acquired as a result of the merger between Vaaldiam and Great Western. The Alberta Area Properties consist of the Utikuma, Birch Mountain, Peerless Lake, Calling Card, and La Biche properties. 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 four 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 future work will be required for evaluation by the Company.

At December 31, 2008, the Alberta Area properties were written down by \$501,495 to \$280,014.

As at March 31, 2009 the Alberta Area Properties are carried on Vaaldiam's books at a cost of \$351,087.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Saskatchewan, Canada Properties

The Snowden property in Saskatchewan was acquired as a result of the completion of the merger between Vaaldiam and Great Western on January 2, 2008. During 2006 and 2007 Great Western completed a ground magnetic geophysical survey and two core holes 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 written down to \$225,284 at December 31, 2008.

At March 31, 2009 the Snowden property is carried on Vaaldiam's books at a cost of \$233,090.

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

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

SELECTED FINANCIAL INFORMATION

Three months ended or as at March 31	2009	2008
Sales	\$ 38,120	\$ 3,510,861
Net loss from continuing operations		
- total	\$ 1,580,487	\$ 5,276,048
- per share	\$ 0.01	\$ 0.03
Cash and cash equivalents	\$ 12,675	\$ 4,441,248
Restricted cash	\$ 473,282	\$ 1,846,161
Inventories	\$ 82,148	\$ 2,039,200
Working capital (deficit)	\$ (18,226,881)	\$ 7,675,295
Property, plant and equipment (including assets under construction)	\$ 7,910,361	\$ 11,234,010
Mineral properties	\$ 21,991,075	\$ 129,880,962
Total assets	\$ 41,743,032	\$ 152,465,380
Line of credit	\$ 3,150,500	\$ -
Future tax liabilities	\$ 150,303	\$ 32,664,493
Shareholders' equity	\$ 21,955,166	\$ 152,465,380
Cash dividends per share	\$ -	\$ -

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS

Quarters Ended	Sales	Net Loss	
		Total	Per Share
March 31, 2009	\$ 38,120	\$ (1,811,051)	\$ (0.01)
December 31, 2008	\$ 754,345	\$ (32,619,714) ⁽¹⁾	\$ (0.13)
September 30, 2008	\$ 646,136	\$ (58,205,978) ⁽¹⁾	\$ (0.26)
June 30, 2008	\$ 2,691,599	\$ (6,522,592)	\$ (0.03)
March 31, 2008	\$ 3,510,861	\$ (5,276,048)	\$ (0.03)
December 31, 2007	\$ 1,399,303	\$ (616,446)	\$ (0.00)
September 30, 2007	\$ -	\$ (680,456)	\$ (0.01)
June 30, 2007	\$ -	\$ (751,769)	\$ (0.01)

⁽¹⁾ Includes write-down of properties.

FINANCIAL REVIEW

During the quarter ended March 31, 2009 a loss from continuing operations of \$1,580,487 or \$0.01 per share was recorded compared to a loss of \$5,276,048 or \$0.03 per share in the corresponding period of the prior year. The decreased loss of \$3,695,561 arose primarily from a decreased mine operating loss of \$241,247, decreased stock-based compensation expense of \$1,227,528, a decreased foreign exchange loss of \$1,276,628, decreased corporate and general expense of \$630,495, decreased write-down of properties of \$188,414. This was partially offset by increased amortization of \$11,390 and decreased interest income (net of interest expenses) of \$100,995. In addition, during the quarter ended March 31, 2009, the Company reduced the provision for Brazilian taxes and contributions recoverable by \$5,646 and recorded a gain on disposal of property, plant and equipment of \$237,988.

The decrease in corporate and general expenses by over 50% arose mainly through the reduction of personnel implemented since the fourth quarter of 2008 as well as reduced level of activity.

The gross mining loss resulted from an operating loss of \$282,766 recorded at the Duas Barras mine and an operating loss of \$212,465 recorded at the Chapada mine. The mine operating losses consisted mainly of on-going care and maintenance costs and one-time expense items related to staff reductions.

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 quarters ended March 31, 2009 and 2008, amounts of \$124,100 and \$1,351,628 respectively were incurred relating to stock based compensation expenses.

The foreign exchange loss of \$488,154 incurred during the quarter ended March 31, 2009 related mainly to the revaluation of the United States dollar denominated line of credit and the amounts payable in respect of RST acquisition.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at March 31, 2009, the Company had a working capital deficit of \$18,226,881, the cash portion of which was \$12,675. The Company also had restricted cash at March 31, 2009 in the amount of \$473,282 relating to flow-through share issuance proceeds which are required to be expended on Canadian Exploration Expense qualifying expenditures before December 31, 2009. Diamond and supplies inventories as at March 31, 2009 were recorded at \$82,148. Accounts payable and accrued liabilities at March 31, 2009 amounted to \$4,571,318. At March 31, 2009, \$10,711,700 was owed to the vendors of RST which will be settled in full with the completion of the transfer of assets and concessions to the vendors of RST which is still under way at the report date.

Vaaldiam has never invested in asset backed commercial paper.

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

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

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

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

Vaaldiam is endeavouring to raise additional capital through the sale of assets, the raising of debt or the issuance of common shares marketing the event that equity markets improve. Should Vaaldiam not be successful in raising additional capital, it may not be possible for the Company to continue as a going concern. There is no certainty that additional capital will be obtained.

Capital Resources

As at May 11, 2009, Vaaldiam had cash of approximately \$0.1 million and a revolving line of credit of US\$2,500,000 which has been drawn in full.

A potential source of additional capital would be the exercise of options. As at May 11, 2009, the Company had issued the following unexercised options:

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
375,000	September 20, 2009	\$0.45	\$ 168,750
208,000	November 30, 2009	\$0.50	104,000
650,000	November 30, 2009	\$0.58	377,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

650,000	November 30, 2009	\$0.91	591,500
40,000	December 14, 2009	\$0.40	16,000
234,000	December 31, 2009	\$0.99	231,660
55,000	May 10, 2010	\$0.50	27,500
100,000	August 4, 2010	\$0.85	85,000
180,000	November 8, 2010	\$0.84	151,200
1,580,000	January 16, 2011	\$0.75	1,185,000
75,000	April 18, 2011	\$1.37	102,750
50,000	June 9, 2011	\$0.97	48,500
146,250	August 25, 2011	\$1.44	210,600
112,500	December 27, 2011	\$0.95	106,875
2,025,000	January 24, 2012	\$0.85	1,721,250
180,000	February 23, 2012	\$1.02	183,600
393,750	April 2, 2012	\$0.95	374,063
5,495,000	February 26, 2013	\$0.45	2,472,750
200,000	August 7, 2013	\$0.17	34,000
8,500,000	February 18, 2014	\$0.05	425,000
21,249,500			\$8,616,998

An additional potential source of capital could be the exercise of warrants and in January 2009 the Company re-priced the exercise price of these warrants, other than those held by any insider. As at May 11, 2009, the Company had issued the following unexercised warrants:

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
14,625,000	August 15, 2009	\$0.08	\$1,170,000
131,895	August 16, 2009	\$0.08	10,552
1,144,000	May 13, 2010	\$0.08	91,520
15,900,895			\$1,272,072

OFF-BALANCE SHEET ARRANGEMENTS

Under the terms of the Company's leases, the Company is committed to pay an amount of \$245,707 over a period of between 1 month to 22 months in respect of property leases in Canada and Brazil.

RELATED PARTY TRANSACTIONS

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 16.8% 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Zoneplan owned 14,088,889 warrants of Great Western which if exercised would have resulted 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 have resulted in the issuance of 1,010,000 additional Vaaldiam shares to Mr. Marrone. The warrants owned by Zoneplan and Mr. Marrone were exercisable at \$1.33 per Vaaldiam share on or before March 30, 2009. These warrants were not subject to the January 2009 re-pricing, and lapsed unexercised on March 30, 2009.

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

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

On May 13, 2009, the Company received a loan of US\$58,192 from Zoneplan. The loan is interest-free and is due and payable in 90 days upon demand.

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. In addition, in order to reduce the current working capital deficit, the Company may divest part or all of individual projects or other assets.

MANAGEMENT REPORTING

Management's Responsibility for Consolidated Financial Statements

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

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

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2008 the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in 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 DISCUSSION AND ANALYSIS**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 evaluation of internal controls over financial reporting for the Company resulted in the identification of the following weaknesses which in management's view are not material weaknesses:

- Management is aware that with the relatively limited staffing level, there is a lack of segregation of duties due to the limited number of employees dealing with accounting and financial matters. Management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties.
- Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company requires outside assistance and advice on taxation, and complex accounting and reporting issues, which is common with companies of a similar size.
- Management is aware that in-house expertise to deal with information technology and information systems may not be sufficient. The Company has engaged a third party to provide the required expertise and support.

In the first quarter of 2009, the number of employees dealing with accounting and financial matters was further reduced as the operations in Brazil were being placed on care and maintenance. To mitigate the lack of segregation of duties, which is rendered more acute as a result of the severe recession, stricter procedures in cash flow monitoring and approval of cash disbursements as well as review of the financial reports have been introduced to allow for a higher level of oversight from head office. As such, management does not consider that the Company's internal controls over financial reporting have been materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting for the first quarter of 2009.

The Company's management, including the CEO and CFO, conducted an evaluation of the effectiveness of its internal controls over financial reporting as of March 31, 2009 and in the context of the relatively lower level of operational activity, has concluded that the internal controls as of March 31, 2009 had been effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS**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 quarter ended March 31, 2009, \$124,100 was expensed and \$20,400 was capitalized to mineral properties as the cost of options issued under the Company's Stock Option Plan.

The assumed recoverability of the carrying value of mineral properties and property, plant and equipment is dependent on the assumed discovery of economically recoverable reserves, the assumed ability of the Company to obtain financing or other means to complete development of the properties and assumed future profitable production or proceeds from the disposition of the properties. The fair value of these items is subjective and is based on management's best estimate incorporating the use of internal and external expertise.

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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

New Accounting Pronouncements:**(i) International Financial Reporting Standards**

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

(ii) Goodwill and Intangible Assets (Section 3064)

Effective January 1, 2009, the Company will adopt Section 3064. Section 3064 provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The adoption of this section did not have a material effect on the Company's financial position or results of operations.

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

In January 2009, the Emerging Issues Committee ("EIC") issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into

MANAGEMENT'S DISCUSSION AND ANALYSIS

account the credit risk of the entity and the counterparty. The adoption of this EIC did not have a material effect on the Company's financial position or results of operations.

(iv) Mining Exploration Costs ("EIC-174")

In March 2009 the EIC issued EIC-174. In this EIC the Committee reached a consensus that a mining enterprise that has not established mineral reserves objectively and, therefore, may not have a basis for preparing a projection of the estimated future net cash flow from the property, is not precluded from considering exploration costs to have the characteristics of property, plant and equipment. The EIC also provides guidance on when impairment should be assessed and what conditions indicate impairment for capitalized exploration costs. This EIC is consistent with the Company's existing accounting policy for capitalization of exploration costs and did not result in any changes to the Company's financial position or results of operations.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at May 11, 2009, the Company had cash and cash-equivalent of approximately \$0.1 million. Vaaldiam has never invested in asset backed commercial paper.

OUTSTANDING SHARE DATA

As at May 11, 2009, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at December 31, 2008	245,052,668
Shares issuable on exercise of options	21,249,500
Shares issuable on exercise of warrants	15,900,895
Fully diluted shares outstanding as at May 11, 2009	282,203,063