



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

All dollar figures are quoted in Canadian dollars unless otherwise specified

TABLE OF CONTENTS

	PAGE
Cautionary Note on Forward Looking Statements	1
Q2 Highlights	1
Outlook.....	2
The Rough Diamond Market	3
Corporate Acquisition	4
Overview	4
Operations	4
Investments	8
Summary of Quarterly Results	10
Financial Review	10
Financial, Liquidity and Capital Resources	14
Commitments and Contractual Obligations	15
Off-Balance Sheet Arrangements.....	16
Related Party Transactions.....	16
Subsequent Events.....	16
Management Reporting	16
Critical Accounting Estimates.....	18
Changes in Accounting Policies including Initial Adoption	19
Transition to International Financial Reporting Standards	20
Uncertainties and Risk Factors	22
Outstanding Share Data.....	26
General.....	26
Indemnities.....	26
Other Information	26

MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management's Discussion and Analysis ("MD&A") provides a review of the results of operations of Vaaldiam Mining Inc. ("Vaaldiam" or the "Company") and should be read in conjunction with the unaudited comparative consolidated financial statements and related notes for the six months ended June 30, 2010. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The following MD&A is prepared as of August 12, 2010. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

When used in this document, words such as 'estimate', 'expect', 'anticipate', 'believe' and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objectives, and goals for Vaaldiam and therefore involve inherent risks and uncertainties.

Shareholders and prospective investors should be aware that the financial statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Vaaldiam undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or such factors which affect this information, except as required by law.

Q2 HIGHLIGHTS

- **Duas Barras Mine:**
 - Preparations are under way to restart operations at the 100%-owned Duas Barras mine, located in Minas Gerais. This is consistent with our stated target to restart the operation during Q3, 2010;
 - Improvements to the feed preparation circuit, combined with the expansion of the mineral concentration circuit, are expected to improve production rates and the recovery of both diamonds and gold;
 - Mining operations commenced with approximately 33,000 bank cubic metres ("bcm") of overburden excavated from Mining Block #3, which will be the focus of production operations during the next 10 months;
 - The mine is expected to produce 15,000 carats in 2010 increasing to 40,000 carats in 2011 at a projected cash cost of US\$85 per carat. Historical revenues were US\$165 per carat; and
 - We are preparing exploration programs to upgrade and expand our resources at Duas Barras and we are in active discussions with local landowners to acquire additional prospective properties.

- **Braúna Diamond Project:**
 - Processing a 5,000 tonne bulk sample from the 1.85 hectare Braúna 3 pipe to confirm the diamond content and produce a parcel of diamonds for valuation purposes;
 - Bulk sampling program is expected to be completed in October 2010;
 - The Braúna property is in Bahia State. It has excellent infrastructure and the kimberlites are exposed at surface, potentially reducing capital expenditures and operating costs; and
 - The Company is the operator of the bulk sampling program which is currently in progress and holds a 20% interest in the project with the right to increase its interest to 49%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Administrative Activities:

- Relocated the Company's Brazilian head office to Belo Horizonte, a major mining centre in the State of Minas Gerais, which will give the Company improved access to equipment suppliers, industry expertise and skilled personnel, thus reducing costs;
- Significantly reduced backlog of administrative issues that developed in 2009;
- Hired 42 new employees to staff operations and strengthened the finance and administrative team in Brazil; and
- Consolidated operations in Canada with a reduction in administrative personnel, and rented out office space surplus to requirements.

- **Investments:**

- Vaaldiam owns 10,625,000 common shares of Flemish Gold Corp. ("Flemish", previously Kivu Gold Corp.), a private corporation under the Canada Business Corporation Act, focusing on precious metals exploration in sub-Saharan Africa. Subsequent to the end of the quarter, Flemish closed a private placement and raised \$6.1 million net of expenses for exploration purposes at \$0.75 per common share thereby diluting Vaaldiam's ownership to 22.59%;
- Base Iron Limited ("BIL") (ASX: BSE) announced that it had completed its due diligence and had received Government of Kenya approval of BIL's acquisition of the Kwale Mineral Sands Project ("Kwale"), all the intellectual property associated with the Company's mineral sands projects in Africa and an option to acquire 100% of Tiomin Kenya Limited ("TKL") for US\$3 million in cash on closing and a cash royalty of 1.5% of all product revenue from Kwale. The transaction closed on July 30, 2010, and the Company received in cash an amount of US\$3 million less the US\$60,000 deposit it had already received.

- **Strong Balance Sheet:**

- Strong cash position of \$10.5 million and working capital of \$8.1 million. In addition to its cash position, the Company owned marketable securities valued at \$1.0 million on June 30, 2010, two royalties on major exploration and development projects and 10,625,000 common shares of Flemish. This cash position was further strengthened at the end of July 2010 with the receipt of US\$3 million upon closing of the Kwale sale.

OUTLOOK

Vaaldiam is a well-capitalized junior mining company whose objective is to be a mid-sized producer of gold and diamonds in Brazil. The Company plans to upgrade the quality of its assets over time to move away from alluvial production to hard rock operations. It owns a significant and growing portfolio of diversified mining investments and royalty interests that it can divest at the appropriate time. The Company has the following attributes:

- **Immediate Production:** Expect to restart production at the 100%-owned Duas Barras mine in the third quarter of 2010.
- **Production Growth:** Vaaldiam's production is projected to grow through the staged resumption of production at its two 100% owned diamond mines and the expansion of resources through exploration and development of the mines' exploration properties.

Production is projected to be:

- 15,000 carats in 2010
- 40,000 carats in 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

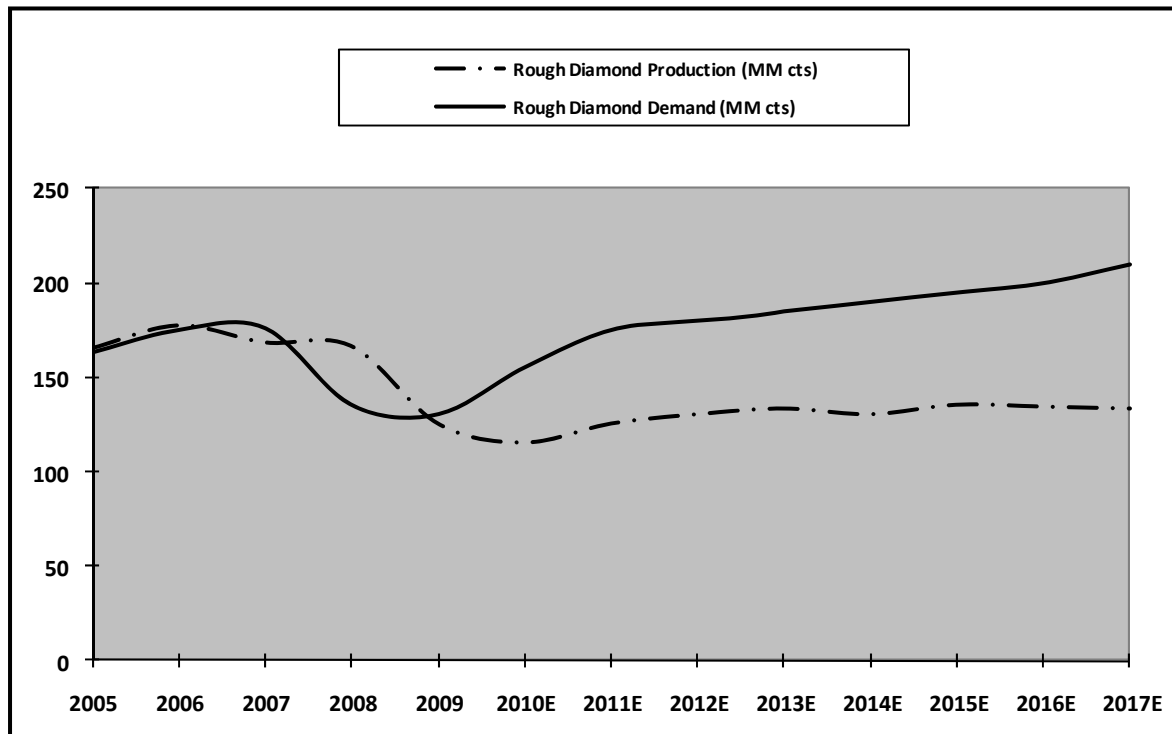
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The potential development of the Braúna kimberlite project, which is currently conducting a bulk-sampling program, is expected to contribute to production in the coming years.

- **Advanced development pipeline:** In addition to becoming South America's largest diamond producer, Vaaldiam will hold interests in two advanced-stage kimberlite deposits in Brazil and also own a large exploration database of kimberlite occurrences in Brazil.
- **Experienced in-country teams:** The Company will benefit from highly-skilled and experienced in-country operational and exploration teams in Brazil, in addition to a strengthened management team with significant industry experience.

THE ROUGH DIAMOND MARKET

Diamond prices have experienced a remarkable rebound from the global economic crisis of 2008/2009, when rough diamond prices experienced an almost 70% decline¹ due to restricted access to credit in the rough diamond trading centres of Belgium, Israel and India, and a similar but less dramatic decline in polished diamond demand. Recent rough diamond trading statistics suggests that most of the decline in prices during the crisis has been recouped. The strong rebound in rough diamond prices is tied to the scarcity of rough diamond supply. Industry consensus is that rough supply is likely to grow slowly or even decline in the next decade, while the demand for polished diamonds in emerging economies such as China is likely to support strong rough diamond demand and pricing. Vaaldiam expects to benefit from this strong demand for rough diamonds, both in terms of the Company’s own production and from increased investor interest in the diamond sector.



Compiled by Company from Various Industry Sources; Data current as of July 31, 2010

¹ RBC Capital Markets, Equity Research, July 27, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

CORPORATE ACQUISITION

On March 15, 2010, at special meetings of shareholders held by both Vaaldiam Resources and Tiomin Resources Inc. ("Tiomin"), shareholders overwhelmingly approved the previously announced arrangement agreement whereby Tiomin acquired all of the outstanding common shares of Vaaldiam that it did not already own in an all-share transaction on the basis of 0.80 of a Tiomin common share for each Vaaldiam Resources common share. Previously by way of private placements of 5,000,000 common shares on December 11, 2009 and 20,000,000 common shares on January 15, 2010, both of which were acquired at a price of \$0.03, Tiomin acquired 25,000,000 common shares, or approximately 9% of the then outstanding common shares in Vaaldiam Resources. In addition Tiomin shareholders approved the name change of Tiomin to Vaaldiam Mining Inc. At the Tiomin shareholders' meeting, the shareholders also approved a share consolidation on the basis of one new Vaaldiam common share for ten existing common shares. On March 18, 2010, the Company received final court approval from the Ontario Superior Court of Justice and the arrangement became effective on March 23, 2010. Vaaldiam Resources was delisted on March 26, 2010. On the same day, Vaaldiam commenced trading on the Toronto Stock Exchange ("TSX") under the symbol 'VAA'.

OVERVIEW

Vaaldiam is incorporated under the laws of the Canada Business Corporations Act and its registered and executive office is at 55 University Avenue, Suite 1105, Toronto, Ontario, Canada M5J 2H7. The Company's office for its subsidiaries in Brazil is located at Rua da Bahia, No. 1345, 12^o Andar, Bairro Centro, Belo Horizonte, Minas Gerais, 30160-011, Brazil.

The Company is engaged in diamond production, mine development and exploration in Brazil. It also holds investments in companies with advanced mineral projects as well as royalty interests.

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. Mining operations are expected to restart at the Duas Barras Mine in the third quarter of 2010, following the suspension of operations in October 2008 as a result of weak rough diamond markets resulting from the global economic crisis. Mining operations at the Chapada Mine were also suspended at the end of June 2008, and currently remain suspended pending the completion of a drilling program and resource evaluation that is expected to be completed during the latter half of 2010. Group production during 2008 (January to October) amounted to 20,193 carats ("cts") of diamonds and 439 ounces of gold.

Duas Barras Mine, Minas Gerais, Brazil

Preparations are under way to restart operations at the Duas Barras mine. A number of upgrades and expansions to the diamond recovery plant have been completed. Improvements to the feed preparation circuit, combined with the expansion of the mineral concentration circuit, are expected to improve production rates and the recovery of both diamonds and gold. Mining operations also commenced during June, with approximately 33,000 bcm of overburden excavated from Mining Block #3, which will be the focus of production operations during the next 10 months.

In addition to the pre-production work undertaken during the quarter on the diamond recovery plant, the Company also implemented a tailings reprocessing project which involved the construction of two gold recovery sluices capable of processing approximately 40 cubic metres of sand per hour. Operation of the tailings recovery plant commenced in mid-June, resulting in the recovery of approximately 18.5 troy ounces of gold (0.57 kilograms) from 9,600 loose cubic

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

metres ("lcm") of sand tailings during Q2-2010. Approximately 130,000 lcm of sand tailings is available for re-processing and is situated in two temporary tailings ponds adjacent to the diamond recovery plant. These tailings contain an average of 0.002 ounces per lcm of recoverable gold, suggesting an average in-situ value of approximately US\$2.40 per lcm at the current gold price of US\$1,200 per ounce.

Since commercial diamond production commenced on September 1, 2007, to October 31, 2008 a total of 261,611 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 34,445 carats of diamonds with an average weight per stone of 0.19 carats. National Instrument 43-101 ("NI 43-101") compliant mineral resource estimate for Duas Barras as of February 16, 2010 was as follows:

Mineral Resource	Volume (m ³)	Diamond Grade (cts/m ³)	Diamond Content (carats)	Fine Gold Grade (mg/m ³)	Fine Gold Content (kg)	Fine Gold Content (troy ounces)
Indicated	1,530,800	0.16	244,930	182	279	8,957
Inferred	810,800	0.16	129,730	182	147	4,744

NI 43-101 Technical Report on the Duas Barras Diamond Mine, February 16, 2010; K. Masun P.Geo.

Chapada Mine, Mato Grosso, Brazil

Mining operations at the Chapada Mine remained suspended during the first six months of 2010. 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 pending the completion of a detailed drilling program designed to expand resources in the area surrounding the processing facility. In the meantime the mine has been placed on a care and maintenance basis with a minimum of staff and security personnel. A six-month exploration program using percussion drilling and manual pitting has been planned to commence in the third quarter to further delineate and upgrade the NI 43-101 compliant resources.

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.

Braúna Project, Bahia, Brazil

Vaaldiam holds a 20% interest in the Braúna project with an option to increase its interest in the project to up to 49% following the completion of the next phase of development by reimbursing all costs incurred to date to the joint venture partners, including the acquisition cost. The mineral rights are comprised of 13 exploration licences, four of which are held in Mineração Montes Claros Ltda (on behalf of the joint venture) with the remaining nine registered in the name of Lipari Mineração Ltda. ("LML"), a Brazilian-registered company owned by the joint venture partners in proportion to their respective interest in the project. Application for a mining permit has been submitted for three of the exploration licences held by Mineração Montes Claros Ltda (on behalf of the joint venture), and are subject to a 1% gross sales royalty (net of selling costs), payable to Majescor Resources Inc., on the sale of diamonds produced from these claims. Four exploration licences that were acquired by the Company from Mineração Montes Alegre Ltda. are subject to a 5% gross sales royalty (net of selling costs).

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

The 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. The pipe continues below 200 metres and is open at depth.

A 5,000 tonne bulk sampling program is currently underway and is designed to confirm the diamond content of the Braúna 3 pipe, and to produce a parcel of diamonds for valuation purposes. During Q1-2010 a new 10 tonne per hour dense media recovery plant was installed on the site. The bulk sampling program is expected to be completed during October 2010. Information generated during this program, coupled with the information from the previously completed delineation drilling program, will provide the basis for a NI 43-101 compliant reserve and resource estimation and the completion of a preliminary 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. Additional drilling and mini-bulk sampling is planned to further evaluate the economic potential of these occurrences.

In addition to having the potential of becoming South America's first kimberlite diamond mine, prospecting, trench sampling and reviews of geological data have revealed significant gold potential. The Braúna claims are located within the important gold-producing Rio Itapicuru Greenstone Belt, which hosts Yamana Gold's Fazenda Brasileiro Mine and several advanced exploration projects where both open pit and underground gold reserves and resources have been delineated. Vaaldiam has a 100% interest in any gold deposit discovered and developed on the Braúna property (with the exception of any by-product gold produced as a result of diamond mining activities).

During 2009, Vaaldiam started an exploration program designed to test the potential of the gold occurrence situated on the Braúna property. Geological mapping of the area encompassing the gold occurrence has traced a quartz vein system over a strike length of 800 metres. The quartz vein system exhibits widths ranging from 0.5 to 2 metres. The Company also collected a total of 66 soil samples on a grid pattern (100 metre by 25 metre spacing) covering the strike extension of the vein system. In addition to the soil sampling survey, geologists also collected rock samples across the width of the vein system at regular intervals along the strike length of the vein system. Two vertical shafts, located 125 metres apart along strike and excavated to a depth of up to 30 metres were sampled by Vaaldiam (as reported on June 12, 2009), returning gold assays of 21.28 grams per tonne (0.68 ounces per tonne) and 5.98 grams per tonne (0.19 ounces per tonne) respectively.

Gold was first discovered on the Braúna property in the mid-1930s by garimpeiro miners who had been recovering alluvial gold from gravel deposits found in the Itapicuru River. Around the mid-1990s, mining of the alluvial deposits in the river eventually led the miners to a northeast trending quartz-vein system that lies adjacent to the river. Miners have manually excavated a series of open trenches and shafts along the strike length of the vein system, which has been traced on surface over a distance of approximately 800 metres. Surface and shallow underground exposures

MANAGEMENT'S DISCUSSION AND ANALYSIS

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excavated by the garimpeiro miners along a strike length of approximately 350 metres, suggests the vein system ranges from 0.5 metres to 2 metres in width.

As at June 30, 2010, the carrying value of Vaaldiam's investment in LML is \$1,179,000 which represents the 20% interest in the Braúna properties. During the six months to June 30, 2010, an equity loss of \$4,000 was recorded on the investment in LML.

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.

The Catalão Property is carried on Vaaldiam's books at a cost of \$9,000 representing the expenditures incurred up to June 30, 2010.

OTHER**ROYALTY TRANSACTIONS****Kwale, Kenya**

On February 24, 2010 the Company and BIL signed a binding Heads of Agreement ("HoA") for a transaction in which BIL acquires the Kwale project, all the intellectual property associated with Vaaldiam's mineral sands projects in Africa and an option to acquire 100% of TKL. On July 13, 2010 the Asset Purchase Agreement was signed.

The HoA contained certain Conditions Precedent ("CPs"): BIL to complete satisfactory due diligence, BIL shareholders and the Government of Kenya ("GoK") to approve the transaction and BIL to raise minimum capital of A\$7 million. BIL has paid Vaaldiam a US\$60,000 deposit that is deductible from the US\$3 million cash closing payment and paid a non-refundable US\$60,000 per month to sustain TKL until the proposed transaction closed or terminated. All the CPs having been met, the sale closed on July 30, 2010.

Upon closing, Vaaldiam received in cash US\$3 million less the US\$60,000 deposit previously received and, if the project reaches commercial production, a cash royalty of 1.5% of all product revenue (FOB Mombasa) from Kwale will be paid monthly in arrears. Pangea Goldfields, a 100% owned subsidiary of Barrick Gold Corporation will receive an

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

additional 0.5% royalty on the same terms and conditions as Vaaldiam in exchange for waiving various rights that it acquired in prior transactions with Vaaldiam.

Pukaqaqa, Peru

The Pukaqaqa copper-gold deposit is located on a 31.5 square kilometre land package situated about 10 kilometre northwest of Huancavelica and 230 kilometre southeast of Lima, Peru. On October 2, 2004, the Company had entered into a heads of agreement with Compañía Minera Milpo S.A.A. ("Milpo") and pursuant to the agreement, the Company earned a 49% interest in the property.

On February 19, 2010, the Company entered into an agreement to sell its 49% contributing equity interest in the Pukaqaqa copper-gold project in Peru to Milpo for US\$7,000,000 in cash, received during the quarter. The Company will also receive US\$4,000,000 if the project begins commercial production, a second payment of US\$4,000,000 one year later and a variable Net Smelter Return royalty ("NSR"). The NSR is 1% on all mineral production if the quarterly LME copper price averages US\$3/lb or less and 2% above US\$3/lb. The NSR applies to the existing property package and to any properties subsequently acquired by Milpo within 15 kilometres of the boundaries of the existing property package.

INVESTMENTS**Flemish Gold Corp.**

Flemish is an exploration company focusing on sub-Saharan Africa. On February 14, 2008, Vaaldiam completed its first investment in Flemish, when it acquired 4,000,000 common shares of Flemish ("Flemish shares") at \$0.50 per common share, representing 16.9% of the then 23,630,000 issued and outstanding common shares of Flemish.

On February 20, 2009, the Company acquired by way of private placement 6,625,000 Flemish shares at a price of \$0.215 per Flemish common share (the "Investment"), thereby increasing its ownership from approximately 16.9% to approximately 33.5% of the outstanding common shares of Flemish. With subsequent private placements by Flemish at \$0.25 per share and \$0.50 per share, Vaaldiam's interest has been reduced to 27.75% as at June 30, 2010. Since then, Flemish had raised additional equity through a private placement at \$0.75 per share, in which the Company did not participate, and as a result the Company's ownership has been diluted to 22.59%.

As there were common directors on both Flemish and Vaaldiam, non-related directors of the Company approved the initial and subsequent investment based on their review and analysis, which included receiving an independent fairness opinion. Although the Investment was a related party transaction, the completion thereof was not subject to the shareholders' meeting and valuation requirements of Multilateral Instrument 61-101 as the fair market value of the Investment did not exceed 25% of the market capitalization of the Company.

Scott Wilson Roscoe Postle Associates Inc. completed a report entitled "Valuation of the Exploration Properties of Kivu Gold Corporation" dated December 31, 2008 and an independent fairness opinion was obtained from Fraser Mackenzie Limited that the Investment was fair from a financial point of view to the shareholders of the Company.

At December 31, 2008, the Investment was accounted for under the cost method. However, effective February 20, 2009, the Company has accounted for the Flemish Investment retroactively under the equity method, which has resulted in equity losses being realized from February 14, 2008. During the six months ended June 30, 2010, \$400,000 was recorded as equity losses and Vaaldiam has also recognized a gain on dilution of \$429,000 and increased the carrying value of the investment by this amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Freegold Ventures Ltd.

On August 22, 2008, the Company announced that it would provide a bridge loan of US\$2 million to Freegold Ventures Ltd. ("Freegold") (TSX: ITF, OTCBB: FGOVF, Frankfurt: FR4), a company in which the President and CEO was a director. The President and CEO resigned as a director of Freegold in January 2009. The US\$2 million loan was part of a US\$4 million bridge loan facility obtained by Freegold.

The bridge loan facility was to mature on January 15, 2009. Terms for this facility included an annual interest rate of 12.5%, a cash closing fee, and 350,000 purchase warrants exercisable at \$0.55 each to purchase common shares of Freegold valid for a two-year period. An amount of \$105,000 in interest was received and recorded at December 31, 2008.

On January 15, 2009, the Company agreed to extend the bridge loan facility until February 10, 2009. In consideration, it received an additional 250,000 common shares in Freegold and its 350,000 purchase warrants were repriced.

On February 24, 2009, the Company and the other bridge lender reached an agreement with Freegold to further extend the maturity date of the combined US\$4.1 million in bridge loans, including accrued interest and commission, to July 15, 2009. A further extension was granted until August 15, 2009. As consideration for these extensions, the interest rate on the loans was increased from 12.5% to 15.0% and the Company and the other lender each received extension fees consisting of 360,000 common shares of Freegold, 500,000 purchase warrants to purchase common shares of Freegold for a two-year period, and US\$62,000, payable upon the earlier of the receipt of new financing or March 31, 2009.

On April 1, 2009, Freegold announced that it was not able to pay the US\$62,000 loan extension fee due on March 31, 2009. Freegold then reached an agreement with its senior bridge loan lender and the Company for a further restructuring that provided an additional US\$200,000 of funding to Freegold, which was provided by the senior lender. Under the revised documents, all interest and extension fee payments due under the previous agreements were capitalized and added to the principal amounts due on the new maturity date of July 15, 2009.

Freegold required a further extension to the July 15, 2009 maturity date and on September 8, 2009, the Company announced that it had reached an agreement with Freegold to increase its equity interest in Freegold to 19.99%, by converting approximately US\$1,378,000 of the US\$2,329,032 bridge loan owed by Freegold to the Company at August 31, 2009, including accrued interest and commission fees, into 16,714,773 common shares of Freegold. The Company holds a total of 17,324,773 common shares as a result of this transaction.

In addition, Freegold also agreed to transfer to the Company 1,000,000 of the 5,000,000 common shares of Western Standard received by Freegold in exchange for Freegold's Almaden Gold Project in Idaho. Western Standard will also assume the approximate US\$3 million of debt owed by Freegold to the senior bridge lender, relieving Freegold of this debt obligation. The Company also agreed to cancel all the warrants held in order to get the maximum number of shares permitted.

This transaction was completed on October 1, 2009 and the Company recognized interest income and commission income totalling \$226,000 and \$112,000, respectively, on the accumulated interest and commission fees added to the original principal. Under the revised agreement, the remaining debt of approximately US\$783,000 or C\$855,000 owed by Freegold will be repayable over a two-year term and will bear an annual interest rate of 6% payable quarterly. The debt will be held in Canadian dollars and no longer in US dollars. The Company will continue to be secured under the existing security agreements and will have collateral, being a first priority pledge of the shares in Freegold's remaining wholly owned US subsidiaries and a general security agreement against the personal property of Freegold (including a second charge against the processing and private property assets currently collateralizing an equipment loan at Golden Summit).

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

On May 28, 2010, Vaaldiam sold 380,000 shares in Freegold for proceeds of \$29,000. As at June 30, 2010, Vaaldiam holds 16,944,773 common shares in Freegold, which are held as an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$1,308,000 in other comprehensive loss in the financial statements at June 30, 2010 due to the change in the market value.

Western Standard Metals

On October 1, 2009, Vaaldiam received 1,000,000 common shares of Western Standard Metals Limited ('Western Standard') (TSX-V: WSM) at a deemed contract price of \$0.184 as part of the Freegold transaction.

As at June 30, 2010, Vaaldiam held 1,000,000 common shares, which are held as an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$225,000 in other comprehensive loss in the financial statements at June 30, 2010 due to the change in the market value.

SUMMARY OF QUARTERLY RESULTS

(\$'000s except for per share and capitalization)	Jun-30 2010	Mar-31 2010	Dec-31 2009	Sep-30 2009	Jun-30 2009	Mar-31 2009	Dec-31 2008 Restated	Sep-30 2008
Loss before interest, equity loss and amortization	1,451	2,550	709	32,879	2,029	1,524	7,318	1,078
Loss before income tax	1,682	2,254	30	31,347	2,231	1,647	7,283	959
Loss per share	0.02	0.03	0.00	0.65	0.05	0.03	0.15	0.02
Total assets	28,779	33,764	22,719	23,659	56,272	58,400	61,268	68,092
Compensation expense relating to stock options	105	(824)	(157)	131	-	-	-	-
Working capital	8,083	10,358	17,736	13,572	15,005	17,034	19,964	21,597
Mineral properties	5,949	5,298	-	3,811	9,680	9,680	9,680	11,812
Deferred exploration and development	-	-	-	2,868	27,046	27,046	27,046	29,739
Share Capital:								
Outstanding (000's)	71,388	71,388	48,226	48,226	48,081	48,081	47,661	47,426
Warrants (000's)	9,844	9,935	10,329	10,329	10,329	10,338	10,338	10,764
Options (000's)	4,607	4,617	4,245	4,315	3,977	4,357	4,476	4,044

FINANCIAL REVIEW

During the quarter ended June 30, 2010, a loss of \$1,682,000 or \$0.02 per share was recorded compared to a loss of \$2,231,000 or \$0.05 per share in the corresponding period of the prior year.

Corporate and general

During the quarter ended June 30, 2010, the Company incurred \$1,346,000 in corporate and general compared to \$1,600,000 in 2009.

- a) **Salaries and other compensation** – During the three and six months ended June 30, 2010, salaries and other compensation totalled \$445,000 and \$783,000 compared to \$286,000 and \$594,000 for the same period during 2009. This increase was mainly as a result of adding salaries and other compensation of the Brazilian management and office as a result of the merger. Salaries and other compensation expenses for the Canadian

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

head office are expected to be reduced during the third quarter of 2010 when transition staff have completed their notice periods and are no longer employees of the Company.

- b) **Travel** – During the three and six months ended June 30, 2010, the Company incurred \$55,000 and \$140,000 of travel costs compared to \$14,000 and \$66,000 for the same periods during 2009. The increase in travel costs during 2010 is as a result of increased activity and is related to the acquisition of Vaaldiam Resources, increased travel between Brazil and Canada, as well as increased investor relations activity.
- c) **Professional fees** – During the three and six months ended June 30, 2010, the Company spent \$411,000 and \$507,000 on professional costs compared to \$1,168,000 and \$1,716,000 for the same periods during 2009. During the first six months of 2009 professional fees were extremely high mainly as a result of the Jaguar lawsuit, which was settled on July 22, 2009. With the introduction of IFRS and the preparation and review of the 2010 comparative quarterly financial statements, and the need to resolve backlog of administrative issues, it is not expected that professional fees will be substantially reduced during the course of 2010. The Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.
- d) **Shareholder and promotion** – During the three and six months ended June 30, 2010, the Company spent \$170,000 and \$232,000 on shareholder and promotion compared to \$80,000 and \$146,000 in 2009. This is expected to increase during 2010 as the Company will be spending more money on investor relations and promotion.
- e) **Office costs** – During the three and six months ended June 30, 2010, the Company spent \$170,000 and \$226,000 compared to \$49,000 and \$89,000 for the corresponding periods in 2009. The increase is due to the addition of the Brazilian office as a result of the merger with Vaaldiam Resources.
- f) **Provision for labour lawsuits in Brazil** – The Company continued to settle outstanding labour lawsuits in Brazil. Some of these settlements were for amounts lower than those provided for in the past. During the three and six months ended June 30, 2010, the Company reduced the provision for labour lawsuits by \$106,000. No amount was provided for in the corresponding periods in 2009.
- g) **Penalties/interest on taxes in Brazil** – During the three and six months ended June 30, 2010, the Company made a provision for \$191,000 in penalties/interest for late payment of various taxes in Brazil. No amount was provided for in the corresponding periods in 2009.

Stock based compensation

Stock based compensation expense/(recovery) for the three and six months ended June 30, 2010 was (\$105,000) and \$719,000 compared to (\$60,000) and (\$25,000) in the corresponding periods in 2009. In 2010, \$700,000 of this amount was as a result of two million bonus shares being issued to directors and officers of the Company at a deemed value of \$0.35 per share. In addition \$16,000 was charged to stock based compensation as a result of certain stock options exceeding the quoted price as described below. Cashless options of \$3,000 were exercised during the six months ended June 30, 2010.

For options granted prior to June 11, 2007, compensation expense was first measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding increase in contributed surplus. If, prior to the exercise of the options, the quoted market price of the common shares exceeds the total of the fair value of the options as determined at the grant date plus the exercise price, additional compensation expense will be recorded equal to the excess with on-going re-measurement of the outstanding contributed surplus. At the time of exercise, share capital is credited with the amount, if any, of the outstanding contributed surplus.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

At the Annual Special Meeting held on June 11, 2007, the shareholders approved the cashless settlement alternative in connection with the exercise of options. Under this method, the Company has the option to issue to the option holder substituted rights which are immediately converted into an equal number of common shares.

For options granted after June 11, 2007, compensation expense is calculated as the amount by which the quoted market price exceeds the exercise price with ongoing re-measurement of the outstanding contributed surplus.

General exploration and write-off

During the three and six months ended June 30, 2010, the Company did not spend any money on general exploration, while in 2009, it spent \$43,000 and \$101,000.

Foreign exchange loss (gain)

Foreign exchange losses (gains) were (\$35,000) and \$86,000 for the three and six months ended June 30, 2010 and \$188,000 and \$124,000 in 2009. These gains and losses are a result of fluctuations in the various currencies, and any exchange gain or loss that arises on translation is included in the determination of net loss for the period. As at June 30, 2010, the Company holds its cash and cash equivalents in Canadian dollars, United States dollars and Brazilian reals, representing the near term operating costs to be incurred in Brazil.

Interest income and other income

Interest income and other income received were \$85,000 and \$130,000 for the three and six months ended June 30, 2010 and \$22,000 and \$71,000 in 2009. The amount received during the six months ended June 30, 2010 was attributable to the interest accrued from the Freegold loan and from GIC's and short term investments. During the six months ended June 30, 2009, interest was mainly attributable to GIC's and short term investments. Interest will vary from year to year and with the nominal interest being received on short term investments and the declining cash on hand one will expect to see this income amount reduced during 2010.

Interest

Interest charges were \$5,000 and \$5,000 for the three and six months ended June 30, 2010 and \$1,000 and \$3,000 in 2009. The amounts incurred during 2009 were for leased vehicles through the Company's wholly-owned subsidiary TKL, which were acquired in the last quarter of 2005 and 2006 respectively. During 2009 these leases were settled. In 2010, interest was paid on a line of credit which was repaid in the quarter ended June 30, 2010.

Amortization

Amortization charges were \$67,000 and \$84,000 for the three and six months ended June 30, 2010 and \$47,000 and \$96,000 in 2009. The decrease was due mainly to the disposal of fixed assets at its wholly-owned subsidiary TKL.

Gain on disposal of mineral property

During the three and six months ended June 30, 2010, the Company realized a net gain after legal and other transaction related costs of \$Nil (2009: \$Nil) and \$572,000 (2009: \$Nil) on the disposal of its 49% share in the Pukaqaqa project, which it sold to Milpo for US\$7 million. No mineral properties were disposed of in 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Impairment of loan receivable

During the three and six months ended June 30, 2010, there is no impairment of loan receivable being provided for. In the first quarter of 2009, a provision of \$227,000 was made as a result of Freegold being unable to pay the interest and defaulting on a loan provided by the Company.

Equity loss of associated company

Equity losses of \$244,000 and \$405,000 were recorded for the three and six months ended June 30, 2010 and \$176,000 and \$297,000 in 2009. This loss relates to the 27.75% interest the Company currently holding in Flemish as well as its 20% interest in LML.

Gain on dilution of associated company

During the three and six months ended June 30, 2010, the Company realized a gain of \$Nil and \$429,000 on dilution in its associated company Flemish Gold Corp. This is as a result of private placements undertaken by Flemish during the six months ended June 30, 2010 at \$0.25 and \$0.50 respectively, reducing Vaaldiam's equity stake from 30.81% at December 31, 2009 to 27.75% at June 30, 2010.

Kwale project

The Company incurred Kwale project related expenses/(recovery) in Kenya of (\$38,000) and \$50,000 for the three and six months ended June 30, 2010 and \$223,000 and \$447,000 in 2009. These are expensed as incurred. As mentioned above, the Company had closed the sale of Kwale on July 30, 2010 and does not expect to incur any additional or significant costs associated with the project.

Transaction costs

As mentioned above, the Company's shareholders on March 15, 2010 at a special meeting overwhelmingly approved the acquisition of Vaaldiam Resources. Transaction costs incurred by the Company for the three and six months ended June 30, 2010 were \$17,000 and \$721,000. No transaction costs were incurred in 2009.

Severance costs

For the three and six months ended June 30, 2010 the Company incurred or accrued severance costs totaling \$Nil (2009: \$Nil) and \$741,000 (2009: \$Nil) as a result of the Vaaldiam transaction described above. With the combination of the two businesses there were obvious synergies, which resulted in certain staff and executives being offered severance packages. The Company will further assess the business over the next several months, which may result in additional severance costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the Company's consolidated cash flows and cash on hand.

(\$000's)	Six months ended June 30, 2010	Fiscal Year 2009
Cash and cash equivalents, end of the period	10,478	1,262
Working capital, end of the period	8,083	17,736
Cash used in operating activities	(6,042)	(6,357)
Cash used in investing activities	16,076	(11,633)
Cash provided by (used in) financing activities	(718)	(36)

Liquidity

As at June 30, 2010, Vaaldiam had working capital of \$8,083,000, compared with \$15,005,000 at June 30, 2009. For the six months ended June 30, 2010, Vaaldiam generated cash flow of \$9,216,000 compared with the use of \$5,466,000 of cash flow for the same period in 2009. Cash used in operating activities in the six months ended June 30, 2010 increased primarily from a decrease in accounts payable of \$2,425,000 (2009: decrease of \$1,336,000), and an increase in receivables of \$49,000 (2009: decrease of \$556,000). During the six months ended June 30, 2010, cash was provided by investing activities with \$7,250,000 received as proceeds from the disposal of interest in the Pukaqaqa project in Peru, and \$10,057,000 received as a short-term investment in GIC matured, while the Company used \$711,000 in investment in Vaaldiam Resources and \$412,000 in the purchase of property, plant and equipment.

Vaaldiam has never invested in asset backed commercial paper. On May 11, 2010, the Company repaid in full the line of credit of US\$700,000 or C\$718,000 together with all interest owing thereon.

On February 3, 2010, Vaaldiam issued 2,000,000 common shares as bonuses at a deemed price of \$0.35 per share.

On March 9, 2010, 8,571 cashless stock options were exercised with a deemed value of \$3,000. During the quarter ended March 31, 2010, 333,752 options expired unexercised or were forfeited.

On March 15, 2010, at the respective special meetings of shareholders held by Tiomin and Vaaldiam Resources, shareholders approved the plan of arrangement ("Arrangement") whereby Tiomin would acquire all of the outstanding common shares of Vaaldiam Resources in an all-share transaction pursuant to which each common share of Vaaldiam Resources was exchanged for 0.08 of a post-Consolidation common share of Vaaldiam, which became effective on March 23, 2010. On the same date, the shareholders of Tiomin also approved a 10 for 1 share consolidation ("Consolidation").

On March 23, 2010, pursuant to the Arrangement, 21,153,226 common shares were issued to shareholders of Vaaldiam Resources; 713,724 options were issued in replacement of Vaaldiam Resources options; and 91,520 warrants were issued in replacement of Vaaldiam Resources warrants.

During the six months ended June 30, 2010, 91,250 warrants and 10,000 options expired unexercised.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Capital Resources

As at June 30, 2010, Vaaldiam had cash of \$10,478,000. Vaaldiam currently has no source of income and no immediate cash flow from its operations until production resumes which is expected to occur in the third quarter of 2010. Vaaldiam receives cash for use in operations from issuing common shares, investment income and occasional sales of selected assets. Vaaldiam has been successful in accessing the equity markets in the past and while there is no guarantee that this will continue to be available, management has no reason to expect that this will diminish in the near future.

A potential source of additional capital would be the exercise of options. As at August 12, 2010, Vaaldiam has issued and outstanding options as follows:

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
20,000	March 24, 2011	\$4.05	\$ 81,000
900,000	February 22, 2012	\$0.90	810,000
301,398	May 22, 2012	\$1.25	376,747
694,333	December 27, 2012	\$0.75	520,750
633,250	May 29, 2013	\$0.65	411,612
424,500	December 3, 2013	\$0.25	106,125
100,000	January 1, 2014	\$0.25	25,000
620,000	February 18, 2014	\$0.50	310,000
819,334	September 10, 2014	\$0.35	286,767
93,724	March 23, 2015	\$0.39	36,552
4,606,539			\$2,964,553

An additional potential source of capital could be the exercise of warrants. As at August 12, 2010, the Company has issued and outstanding warrants as follows:

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
6,093,769	July 31, 2016	\$6.50	\$39,609,499
3,750,000	December 31, 2010	\$3.60	13,500,000
9,843,769			\$53,109,499

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

TKL has leased office premises for five years for approximately 90,000 Kenyan Shillings per month. At June 30, 2010 the Company owes 90,000 Kenyan shillings or approximately \$1,000 using the closing exchange rate of 77.7829 Kenyan shillings for one Canadian dollar.

VBM has leased office premises for two years for approximately R\$6,000 per month. At June 30, 2010 the Company has future cash commitments totaling approximately R\$131,000 or approximately \$78,000 using the closing exchange rate of R\$1.6949 for one Canadian dollar.

On February 2, 2006, Vaaldiam entered into an office lease at 18 King Street East for approximately 3,100 square feet of space for five years commencing on July 1, 2006 and ending on August 31, 2011. As at June 30, 2010, the Company has future cash commitments totalling approximately \$51,000 (December 31, 2009 - \$72,400) until August 31, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

On July 2, 2009, Vaaldiam Resources entered into an office lease at 55 University Avenue for approximately 2,900 square feet of space for a period five years and one month commencing on December 1, 2009. As at June 30, 2010, the Company has future cash commitments totalling approximately \$517,000 until December 31, 2014.

In April 2010, Vaaldiam relocated its office to 55 University Avenue and has sublet a portion of the 18 King Street East to Flemish, a related party, at \$2,200 per month until August 31, 2011. The Company also entered into a sublease agreement with an arm's length party for \$3,700 per month for a portion of its 55 University Avenue premise beginning in July 2010.

OFF-BALANCE SHEET ARRANGEMENTS

Vaaldiam has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Transactions with related parties are recorded at the exchange amount, which is the amount of consideration agreed upon between the parties.

- a) As discussed, the Company holds a 27.75% ownership interest in Flemish as at June 30, 2010. Certain directors, officers and employees of the Company currently hold 14,117,500 (30.02%) common shares of Flemish. The main holders of the common shares are Jean-Charles Potvin, the non-executive Chairman of Vaaldiam, and his family, who hold 11,000,000 common shares, and Robert Jackson, the President and CEO of Vaaldiam, who holds 1,300,000 common shares. The Chairman, effective February 1, 2010, will receive an annual salary of \$125,000. The CEO is also a director of Flemish and receives no compensation from Flemish. The Chairman and the CEO hold 900,000 and 400,000 stock options, respectively, at an exercise price of \$0.50 per option.
- b) In the first quarter, the Company charged Flemish \$3,100 for office space and expenses. From April 2010, the Company charges Flemish \$2,200 per month for office space. During the second quarter, the Company charged Flemish \$7,200 for office space and expenses. No other services are provided and charged for by the Company. As at June 30, 2010, an amount of \$600 was outstanding from Flemish which was subsequently paid for in July 2010.

SUBSEQUENT EVENTS

On July 30, 2010, the sale of Kwale closed and US\$3 million was received by the Company.

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

The accompanying unaudited interim consolidated financial statements of the Company are the responsibility of management. The unaudited interim 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 unaudited interim consolidated financial statements and this Management's Discussion and Analysis. The Board of Directors fulfills its responsibilities regarding the financial statements mainly through its Audit Committee, which has a written mandate which complies

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

The Company's management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"). The accounting staff is small in number and it is not practical or cost effective to increase the number of accounting personnel to enable the segregation of all accounting and financial reporting duties in a company of this size. Should a complex transaction present itself, the Company would plan to consult with independent specialists.

Internal Control over Financial Reporting

ICFR is designed by, or under the supervision of, the Company's certifying officers, being the Chief Executive Officer and the Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework Vaaldiam's certifying officers and senior managers used to design Vaaldiam's ICFR is the COSO Framework.

Disclosure Controls and Procedure

DC&P are designed to provide assurance that all relevant information is gathered and reported to the senior management, which includes the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Certification of Disclosure in Issuers' Annual and Interim Filings

The Company's certifying officers are responsible for establishing and maintaining DC&P and ICFR as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, for Vaaldiam. The Company is committed to following established and/or best practices for governing, controlling and reporting its activities and performance. The certifying officers utilized the support and expertise of the Board of Directors; the executive management team; the Company's legal counsel; external auditors; and other consultants to facilitate the design and operation of DC&P and ICFR.

The design of Vaaldiam's DC&P and ICFR has evolved over time to adapt to changing business needs and legislated requirements. The present designs incorporate the following:

- Corporate Governance and Nominating Committee Charter;
- Audit Committee Charter;
- Compensation Committee Charter;
- Ongoing communication amongst the Company executives and senior executives in Brazil;
- Utilization of external legal counsel experienced in Vaaldiam's business;
- ICFR based on the COSO Framework;
- Investment in qualified staff and their professional development;
- Utilization of MS Dynamics SL (Solomon) for multi-company, multi-currency accounting, project tracking and reporting which benefit from built-in audit trails and controls that facilitate accurate and timely financial reporting
- Utilization of software tools, such as Compliance Partner® (by Thompson Carswell) and IFRS Partner® (by Issues Central), to identify best practices, document existing controls and procedures, identify opportunities for improvements and scope and support compliance testing and evaluation;
- Consideration of control risks inherent in operations with a small number of staff where the lack of segregation of duties must be offset by other compensating controls such as expenditure variance analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

- Regular visits by Canada-based executives to subsidiaries in Brazil to review exploration and mine plans, operations and financial records, as appropriate.

Limitation on scope of design:

The Company has limited the scope of the design of DC&P and ICFR to exclude controls, policies and procedures of the business that Vaaldiam acquired in March 2010, or less than 365 days prior to March 31, 2010. Vaaldiam Resources and its subsidiaries were acquired on March 23, 2010. The scope limitation is primarily based on the time required to document and assess the DC&P and ICFR in a manner consistent with the Company's other operations.

Conclusion regarding Design:

Subject to the limitations on the scope of design of DC&P and ICFR directly related to Vaaldiam Resources and its subsidiaries, as noted above, the CEO and CFO have, as at June 30, 2010

- (a) designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that
 - (i) material information relating to Vaaldiam is made known to the CEO and CFO by others, particularly during the period in which the interim filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (b) designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The design of ICFR for the Company has appropriately considered the risks that may affect the completeness, accuracy, timeliness and usefulness of its financial reporting. In particular the inherent risks associated with difficulties segregating certain duties in a small organization were considered when implementing approval policies and procedures, accounting transaction processes and expenditure variance analysis. Consequently, the Company concludes that the DC&P and ICFR as at June 30, 2010 were appropriately designed.

Changes in ICFR:

In the quarter ended June 30, 2010, the Director of Finance and Administration was appointed in Brazil to manage the accounting office there. This is expected to materially improve the ICFR. Apart from this, there were no changes in the Company's internal controls over financial reporting during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred expenditures, the value of stock-based compensation and the allocation of purchase prices for business acquisitions. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

will depend upon a variety of factors including the market value of the Company's share and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model; however, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of the carrying value of its mineral properties and property, plant and equipment is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by 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.

Vaaldiam is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

The preliminary allocation of the purchase prices for business acquisitions were based on internal management estimates. 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 2010 as outlined below and no future changes are contemplated except as may be required to conform to future changes in Canadian GAAP.

Initial adoption:***Business Combinations, Consolidations, and Non-Controlling Interests***

In January 2009, the Accounting Standards Board ("AcSB") issued the following new standards: 1582 – *Business Combinations*, 1601 – *Consolidations*, and 1602- *Non-Controlling Interests*. These standards will be effective for fiscal years beginning on or after January 1, 2011, and early application is encouraged. Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent of International Financial Reporting Standards ("IFRS") 3, *Business Combinations*. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, *Consolidated and Separate Financial Statements*. The Company has early adopted these new standards effective January 1, 2010 and has applied this to the business combination that occurred effective March 23, 2010. As a result of early adoption of these new standards, all costs associated with the March 23, 2010 business combination have been expensed as transaction costs. Early adoption of these sections 1601 and 1602 did not have any other impact on these consolidated financial statements.

Future accounting change:***International Financial Reporting Standards ('IFRS')***

In January 2006, the CICA's Accounting Standards Board ('AcSB') formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will assess the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after January 1, 2011, the Company must comply with the AcSB's new accounting standards that have been revised to satisfy the requirements of IFRS as issued by the International Accounting Standards Board.

Management of IFRS implementation

Vaaldiam is a junior company with a small accounting staff. The VP Finance and Chief Financial Officer and the Corporate Controller will manage the conversion and report regularly to the Audit Committee. The implementation of IFRS consists of three phases:

- (i) *Scoping and impact analysis*- Project scoping and impact analysis was completed as at December 31, 2008 and produced a high level view of potential differences to existing accounting and reporting policies and consequential changes to information systems and business processes.
- (ii) *Evaluation and design phase*- This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The evaluation phase commenced in 2009 and the Company will continue to evaluate the impact of IFRS through to implementation.
- (iii) *Implementation and review phase*- The implementation and review phase has commenced and includes training programs for all finance staff, execution of changes to information systems and business processes, and completing formal authorization processes to approve recommended accounting policy changes. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding of IFRS in business processes, elimination of unnecessary data collection processes and Board approval of IFRS financial statements. Implementation also involves delivery of further training to staff as systems begin to take effect.

Key differences in accounting policies

The financial statements for the three and six months ended June 30, 2010 has been prepared in accordance with Canadian GAAP. The differences between Canadian GAAP and IFRS identified to date as potentially having a significant effect on Vaaldiam's financial performance and financial position are in the process of being reviewed.

During the six months ended June 30, 2010, the Company has not quantified the effects of the differences between Canadian GAAP and IFRS, but has established that there will be differences in various areas as noted below. The Company also notes that its subsidiary Tiomin Kenya Limited currently prepares additional financial statements for Kenya statutory reporting purposes in accordance with IFRS.

The transition date for the Company in the conversion to IFRS is January 1, 2010. Under IFRS conversion, the Company develops accounting policies that conform with IFRS effective at the end of the first IFRS reporting period, that is December 31, 2011. The opening statement of financial position will then be restated assuming a full retrospective

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

implementation of all IFRS accounting standards as provided for in IFRS 1, *First-time Adoption of IFRS* ("IFRS1"). IFRS1, however, provides for certain optional exemptions that the Company can elect, which would effectively allow the Company to choose to apply certain IFRS accounting policies prospectively from the date of transition.

The Company has performed a preliminary assessment of the alternatives permitted including IFRS 1 exemptions and identified the areas affected by the conversion.

(i) Business combinations

Section 1582 – Business Combinations issued by CICA's AcSB and IFRS 3, *Business Combinations* ("IFRS3") are converged. The Company had elected to early adopt s.1582 effective from January 1, 2010 and therefore all business combinations after that date are accounted for the same as the IFRS rules. The Company plans to elect for exemption not to apply IFRS to business combinations completed prior to January 1, 2010.

(ii) Exploration and evaluation

The Company capitalizes all pre-exploration, exploration and evaluation expenditures related to mineral properties until the properties are brought into production at which time they are amortized over the life of the mine on a units-of-production basis. Under CGAAP, pre-exploration expenses are not separately identified. Under IFRS, pre-exploration expenses are expensed, and the Company has a choice of expensing exploration and evaluation expenditures as incurred or capitalizing them. The Company is reviewing its policy in relation to exploration and evaluation expenditures.

(iii) Property, plant and equipment

Under IAS 16, *Property, Plant and Equipment* ("IAS16"), the Company has an option to adopt the cost model or the revaluation model. IFRS1 provides exemption for the Company to elect to use as fair value as the deemed cost of an item of property, plant and equipment in its balance sheet on the transition date. The Company had a relatively small value of property, plant and equipment on the transition date, and the Company plans to elect this exemption. In March 2010, a large amount of property, plant and equipment were acquired in the acquisition of Vaaldiam Resources. The Company is developing a fair value basis for those assets at the acquisition date.

IAS16 calls for a higher degree of component accounting for property, plant and equipment than CGAAP. As a result, changes will have to be made to the accounting system to address the ongoing accounting requirement for incorporating sufficient details for component accounting and a review of the depreciation rates.

(iv) Impairment of long-lived assets

CGAAP uses a two-step approach to impairment testing for long-lived assets, with the first step being the use of undiscounted cash flow to identify possible impairments. IAS 36, *Impairment of Assets*, calls for a one-step approach for identifying and measuring impairments, which is based on comparing the carrying value to the recoverable amount, the recoverable amount being the higher of the fair value less selling costs and the value in use, which is based on discounted cash flows. The Company is analyzing its impact on the opening IFRS balance sheet and the impact on the financial statements from then on.

(v) Functional currency and translation of foreign operations

Under CGAAP, translation of self-sustaining foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate, revenues and expenses are translated at actual rates or appropriate averages and equity components (excluding current year movements which are translated at actual rates)

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

are translated at historical rates. The financial statements of integrated foreign operations are translated as follows: all transactions not denominated in the Company's functional currency are measured at the spot exchange rate on initial recognition. Monetary items are translated at the closing rate and non-monetary items at historical rates. Exchange differences arising on translation are recognized in profit and loss for the period. The Company is currently assessing the functional currency of each of its entities.

(vi) Stock options

The Company is currently assessing the impact of the differences between IFRS and CGAAP in the treatment of stock options.

These assessments are preliminary and the Company is still looking at the impacts on income taxes, stripping costs, exploration and evaluation costs, functional currencies, decommissioning liabilities and financial instruments. The Company plans to develop a quantified preliminary assessment by the fourth quarter with the IFRS balance sheet at the transition date prepared and reviewed by the Company's auditors. The Company also plans to prepare before the end of 2010 the comparative IFRS balances required for each of the interim financial statements filed in 2010.

The regulatory bodies that promulgate Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's financial reports in future years. The future impact of IFRS will also depend on the particular circumstances prevailing in those years.

UNCERTAINTIES AND RISK FACTORS

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations may be subject to risks including labour disputes, environmental hazards, safety issues, geological issues, weather conditions, and changing regulatory requirements as examples. Vaaldiam is subject to competitive risk as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for the precious metals and the economic forces that influence capital markets. As a result the securities of Vaaldiam must be considered speculative. A prospective investor in Vaaldiam should carefully consider the following factors:

Exploration and Development

Exploration for diamond, gold, copper and other minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that exploration efforts will result in the discovery of mineralization or that any mineralization discovered will result in the definition of reserves. If reserves are developed, it may take a number of years and substantial expenditures from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. No assurance can be given that exploration programs will result in the definition of reserves or that reserves may be economically mined.

The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors, which are beyond the control of the Company.

All exploration and development evaluation expenditures incurred in Vaaldiam, prior to establishing that a property has economically recoverable reserves are capitalized.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Operating Hazards and Risks

Mineral exploration and mining involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The work that the Company proposes to undertake will be subject to all the hazards and risks normally incidental to exploration, development and production, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions and cave-ins, are all the risks involved in the operation of mines and the conduct of exploration programs. Although the Company has secured liability insurance and will, when appropriate, secure property insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs or uninsured losses that could have a material adverse effect upon its financial condition.

Regulations and Mining Law

Mining operations and exploration activities are subject to extensive local and overseas' laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, protection and remediation of the environment, reclamation, mine safety, toxic substances and other matters. Compliance with such laws and regulations increases the costs of planning, designing, developing, constructing, operating and closing mines and other facilities. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the Company would not proceed with or would postpone the development and operation of a mine or mines.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which they operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Vaaldiam's operations or result in substantial costs and liabilities in the future.

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions. There can be no assurance that Vaaldiam will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Title to Assets

Although the Company believes that it holds valid title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned.

Financing Risks

Vaaldiam has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development work or to fulfill its obligations under any

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

applicable agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development plans.

Commodity Prices

The Company's future revenues, if any, are expected to be in large part derived from the mining and sale of diamonds, mineral sands and other metals or interests related thereto. The price of those commodities has fluctuated in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods. The effect of these factors on commodity prices makes it difficult to predict the economic viability of the Company's operations.

Foreign Currency Risks

The Company's future revenues, if any, may be denominated in United States dollars, while the Company operates primarily in Brazil and a significant portion of the Company's operating costs and capital expenditures are denominated in the Brazilian real and the Canadian dollar. As a result, the Company is exposed to the currency fluctuations relative to these two currencies.

Governmental Regulation

Exploration, development and mining of the properties will be affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law; (iii) restrictions on production; price controls; and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the exploration activities proposed for the properties. To the extent such approvals are required and not obtained, the Company's planned exploration, development and production activities may be delayed, curtailed, or cancelled entirely.

Failure to comply with applicable laws, regulations and requirements may result in enforcement action against the Company, including orders calling for the curtailment or termination of operations on the properties, or calling for corrective or remedial measures requiring considerable capital investment. Parties engaged in mineral exploration and mining activities may be subject to civil and criminal liability as a result of failure to comply with applicable laws and regulations.

Amendments to current laws, regulations and permitting requirements affecting mineral exploration and mining activities could have a material adverse impact on the Company's operations and prospects.

No Dividends

Vaaldiam has not paid any dividends on its Common Shares during the past five years. Any decision to pay dividends on its shares in the future will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the board of directors of the Company may consider appropriate in the circumstances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Dependence on Key Employees

Vaaldiam's future growth and its ability to develop depend, to a significant extent, on its ability to attract and retain highly qualified personnel. Vaaldiam is highly dependent on the principal members of its senior management group and the loss of their services might impede Vaaldiam's business strategy and growth. The loss of one or more key employees could have an adverse effect on the growth and profitability of Vaaldiam.

Joint Ventures

The Company holds, and expects to hold in the future, interests in joint ventures. Joint ventures may involve special risks associated with the possibility that the joint venture partners may;

- have economic or business interests or targets that are inconsistent with those of the Company;
- be unwilling or unable to fulfill their obligations under the joint venture or other agreements;
- take action contrary to the Company's policies or objectives; or
- experience financial or other difficulties.

Any of the foregoing may have a material adverse effect on the results of operations or financial condition of the Company

Conflicts Of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or may have significant shareholdings in other reporting companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

Competition

The mineral industry is intensely competitive in all its phases. Vaaldiam competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Share Price Fluctuations

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price which would have not necessarily been related to the operating performance, underlying asset values or prospect of such companies. There can be no assurance that continual fluctuation in share price will not occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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OUTSTANDING SHARE DATA

As at August 12, 2010, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at August 12, 2010	71,388,177
Shares issuable on exercise of options	4,606,539
Shares issuable on exercise of warrants	9,843,769
Fully diluted shares outstanding as at August 12, 2010	85,838,485

GENERAL

The Company also discloses information related to its activities in the Annual Information Form ('AIF'). The AIF and other pertinent information on the Company are available on SEDAR at www.sedar.com.

INDEMNITIES

No director or officer of the Company shall be held responsible for any losses or damages sustained by the Company while in the execution of the duties of his office save if such resulted from his gross negligence or wilful omission, or if he has not acted with honesty and in good faith. The Company shall fully indemnify and save harmless all directors and officers from any and all losses or damages they may sustain while in the execution of the duties of their office save if such resulted from their gross negligence or wilful omission or if they did not act with honesty and in good faith. The Company maintains insurance policies that may provide coverage against certain claims.

OTHER INFORMATION

The technical information about the Company's material mineral properties contained in this MD&A has been prepared under the supervision of Ms Katharine Masun, P.Geo., a consultant of the Company who is a "qualified person" within the meaning of National Instrument 43-101.