



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

All dollar figures are quoted in Canadian dollars unless otherwise specified

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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 nine months ended September 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 November 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.

Q3 HIGHLIGHTS

- **Duas Barras Mine:**
 - Pre-production resumed in the third quarter of 2010, focused on pre-stripping and plant commissioning;
 - Commissioning of the plant commenced in August with newly-mined low-grade transitional gravels and stockpiled gravels from 2008 operations;
 - With the improvements made to the plant in the second quarter of 2010, the plant is operating as expected, with higher performance in the recovery of diamonds;
 - Initial mining results in the quarter ended September 30, 2010 were disappointing; 11,245 bank cubic metres ("bcm") of new gravel was mined and blended with 12,298 bcm of stockpiled gravel for a total ROM feed of 23,543 bcm of gravel and a total of 643 carats ("cts") diamond recovery at a grade of 0.03 cts per bcm versus an average resource grade of 0.16 cts per bcm;
 - Mining contractor equipment availability has been below budget, while more stripping than anticipated has been required before exposing the desired gravels;
 - The ore grade has improved consistently since September, with the opening of a second mining front that exposed substantial amounts of better quality gravels and significantly increased operating flexibility;
 - Consequently, the recovered diamond grade increased to 0.07 cts per bcm of gravel in October with 1,060 cts being recovered during the month, and 949 cts grading 0.15 cts per bcm in the first 8 days of November;
 - Management continues to monitor Duas Barras closely and may suspend pre-production activities during the approaching wet season if higher grade ore stockpiles are inadequate; and
 - As alluvial mining operations are less predictable than conventional hard rock mining, management will no longer provide production forecasts for Duas Barras.

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- **Braúna Diamond Project:**
 - 3 samples of a bulk sample from the northern and southern lobes of the 2 hectare Braúna 3 pipe were extracted and processed to confirm the diamond content and produce a parcel of diamonds for valuation purposes;
 - A total of 4,909.26 dry tonnes of kimberlite has been processed from the southern and northern lobes of the pipe and resulted in the recovery of 1,057.39 cts, resulting in an average recovered grade of 21.5 cts per one hundred tonnes ("cph") with an average stone size of 0.21 cts per stone;
 - Independent valuation of the parcel of diamonds recovered during the bulk sample program being completed; and
 - A National Instrument 43-101 ("NI 43-101") report is currently being produced and is expected to be completed during the last quarter of 2010.

- **Administrative Activities:**
 - Full staff complement reached in both operations and finance and administrative areas;
 - Continued to reduce backlog of administrative issues that developed in 2009; and
 - Review of requirement for a new financial system in Brazil to improve financial, tax and management reporting.

- **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. In August 2010, Flemish closed a private placement and raised \$6.1 million net of expenses for exploration purposes at \$0.75 per common share. This, together with an issue of 60,000 shares as compensation to a geologist contractor, resulted in a dilution of Vaaldiam's ownership to 22.56%; and
 - Base Resources Limited ("BRL", previously Base Iron Limited) (ASX: BSE) announced that it had completed its due diligence and had received Government of Kenya approval of BRL'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 \$11.2 million and working capital of \$9.8 million. In addition to its cash position, the Company owns marketable securities valued at \$1.2 million on September 30, 2010, two royalties on major exploration and development projects and 10,625,000 common shares of Flemish.

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, which tends to be variable, to hard rock operations. It owns a significant and growing portfolio of diversified mining investments and royalty interests that it can, if required, divest at the appropriate time. The Company has the following attributes:

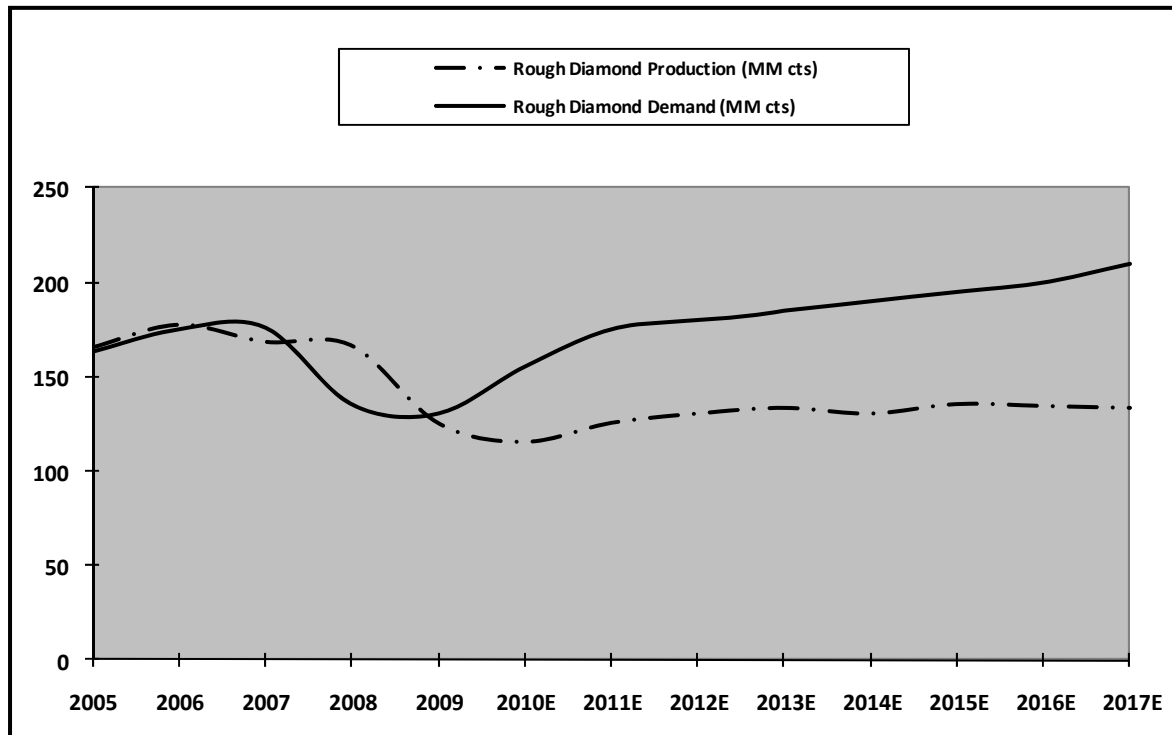
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- **Immediate Production:** Pre-production activities resumed at the 100%-owned Duas Barras mine in the third quarter of 2010.
- **Near-term development:** The Braúna kimberlite project, which completed the bulk-sampling program and is currently completing a NI 43-101 report, will contribute to the production of diamonds in the near future.
- **Advanced development pipeline:** In addition to becoming South America's largest diamond producer, Vaaldiam holds interests in two advanced-stage kimberlite deposits in Brazil and also owns a large exploration database of kimberlite occurrences in Brazil.
- **Experienced in-country teams:** The Company will continue to build 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 continue to strengthen in the face of projected long-term shortages of rough diamond supply. All rough diamond producers have reported strong demand for their rough diamond production and increasing prices, with prices increasing over 50% since the beginning of the year. 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

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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. Pre-production activities were restarted at the Duas Barras Mine during 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 by the end of this year.

Duas Barras Mine, Minas Gerais, Brazil

Work to facilitate the restart of the Duas Barras mine commenced in June 2010 with refurbishment and maintenance of processing plant components and improvements to the processing circuit. This work included a number of upgrades and expansions to the diamond recovery plant, including improvements to the feed preparation circuit and mineral concentration circuit, which have resulted in increased production rates and improved recovery of diamonds. Mining is being conducted by a mining contractor who mobilized its equipment to the site in late June 2010, when overburden stripping operations commenced to expose the thick alluvial gravel sequence that hosts the diamond and gold mineralization. By early August, mining operations had exposed the low grade transitional gravels that overlie the higher-grade basal gravel horizon, and processing of these gravels commenced in early August. The availability of the contractor's equipment to date has not been satisfactory.

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During the quarter ended September 30, 2010, a total of 125,503 bcm of overburden and 11,245 bcm of gravel were mined. The initial results were very disappointing with grades substantially below the average resource grade of 0.16 cts per bcm. Management evaluated the results and decided to open a second mining front to access better quality gravels with an aggressive stripping campaign in September and October. This unanticipated campaign has delayed the mine plan and production schedule by about three months but recent results indicate that production is improving substantially. Despite the unanticipated costs of the stripping campaign, working capital remains adequate. The delay in accessing good quality gravels means that the operation enters the wet season with less higher grade gravel stockpiled than expected. Management is monitoring the situation and may temporarily suspend the mine during the wet season if poor operating conditions prevent the day-to-day mining of higher grade gravel.

The following table shows the mining activities of the project in 2010.

Quarter Ended	Overburden Removed (bcm)	Gravel Mined (bcm)	Total Mined (bcm)
2010			
Jun. 30	814	0	814
Sept. 30	125,503	11,245	136,748
Total	126,317	11,245	137,562

Diamonds recovered during pre-production in the third quarter amounted to 643 cts and reflected the processing of low grade transitional gravels and the blending of stockpiled gravels that remained from 2008 operations. Subsequent to the end of September, recovered diamond grades have increased and reflected the processing of the higher grade gravels that are situated below the lower grade transitional gravels.

In October, the average recovered grade of the gravels had increased to 0.07 cts per bcm of gravel from 0.03 cts per bcm at the end of September. This further improved in November, with the average recovered grade of the gravels for the first 8 days of operation in November increasing to 0.15 cts per bcm of gravel. The following table shows the diamond recovery to the end of September 2010:

Quarter Ended	Gravel Processed (bcm)	Diamonds Recovered	Total Weight (cts)	Average Stone Size (cts)	Recovered Grade (cts per bcm)
2010					
Jun. 30	0	0	0	0.00	0.00
Sept. 30	23,543	7,811	643	0.08	0.03 ⁽¹⁾
Total	23,543	7,811	643	0.08	0.03

⁽¹⁾ Gravel processed included 12,298 bcm from 2008 stockpiles

Since commercial diamond production commenced on September 1, 2007, to September 30, 2010 a total of 285,154 bcm of gravel was treated at the Duas Barras mine resulting in the recovery of 35,088 cts of diamonds at a recovered grade of 0.12 cts per bcm of gravel and an average weight per stone of 0.19 cts. 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 (cts)	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.

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As the operations are still being ramped up, the current operating cost at the mine is not representative of the cost structure that is expected for full production. With the enhancement in the plant, diamonds of smaller sizes, which would have been lost in the previous mining periods, are now being recovered. As the plant was still processing blended low-grade material in the third quarter, the diamonds recovered so far are in general smaller. As such, the value of the diamonds recovered during pre-production is not representative of the value that would be expected when full commercial production is resumed. In November 2010, 1,278.18 cts of diamonds were valued at US\$95.68 per carat and will be sold when the Kimberley Certificate is obtained for export.

Alluvial mining operations are less predictable than conventional hard rock mining operations and the management believes that it is prudent not to provide production forecasts for the Duas Barras mine.

Chapada Mine, Mato Grosso, Brazil

Mining operations at the Chapada Mine remained suspended during the first nine 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 is currently under way to further delineate and upgrade the NI 43-101 compliant resources and is expected to be completed by the end of 2010.

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, amounting to approximately US\$6.7 million. 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).

The Braúna project is located in the state of Bahia in Brazil near the town of Nordestina. Attention is currently focused on the development of the Braúna 3 pipe and the completion of a bulk sampling program and feasibility study.

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The Braúna 3 pipe encompasses about 2 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.

The Company has completed a bulk sampling program to confirm the diamond grade and diamond value of the Braúna 3 pipe. A total of 4,158.24 dry tonnes of kimberlite from two samples has been processed from the southern lobe of the pipe and resulted in the recovery of 1,021.97 cts, resulting in an average recovered grade of 24.6 cpht, with an average stone size of 0.21 cts per stone. The two samples from the south lobe contained approximately 17% dilution in the form of granite blocks and wall rock. The undiluted grade of the kimberlite is estimated at 29.7 cpht. A smaller sample of 751.02 dry tonnes of kimberlite was extracted and processed from the northern lobe of the pipe. This resulted in the recovery of 35.42 cts, a recovered grade of 4.7 cpht and an average stone size of 0.22 cts. Dilution in the northern sample was estimated at 40% to 50% of the sample, largely due to the incorporation of excessive granite surrounding the kimberlite. This additional dilution adversely impacted the recovered grade of the north sample. The undiluted grade of this small sample is estimated at 8.0 to 11.8 cpht. Additional sampling of the north lobe is planned to properly assess the grade and diamond value of this part of the deposit.

The following table presents the sample results from the Braúna 3 bulk sampling program:

Lobe	Dry Tonnes	# of Stones	Total Cts	Average Stone Size (cts)	Dry Grade (cpht)
Southern	4,158.24	4,904	1,021.97	0.21	24.6
Northern	751.02	160	35.42	0.22	4.7
⁽¹⁾ Total	4,909.26	5,064	1,057.39	0.21	21.5

⁽¹⁾ Results include diamonds recovered during processing of recrushed material, glove box rejects, grease table and DMS float tailings at the completion of the program

The colour of 60% of the diamonds recovered has been classified as White and 40% of the diamonds are classified as Off-White. The five largest stones are 10.86 cts (White), 10.55 cts (Off-White), 9.38 cts (Dark Grey), 8.53 cts (Grey) and 6.38 cts (White). Seven diamonds are Yellow, with one stone (2.25 cts) classified as Fancy Yellow.

The Braúna 3 pipe is one of 22 kimberlite occurrences discovered so far on the property. To date, Vaaldiam has carried out exploration work on only 5 of the 22 kimberlite occurrences, including the Braúna 8 ("B8") kimberlite dike situated five kilometres north of the Braúna 3 pipe. Mini-bulk samples extracted from this 4.5 metre-wide dike resulted in the recovery of 170 diamonds weighing 19.37 cts from approximately 46 dry tonnes, inferring a recovered grade of 42 cpht. Included in the diamonds recovered was a 7.97 carat white octahedron stone, the largest recovered from the B8 kimberlite. The B8 occurrence is a vertically oriented kimberlite dike forming a 1,000 metre long section of the northwest trending dike system. Exploration conducted in the vicinity of the B8 dike has confirmed that this dike is linked to the Braúna 21 occurrence. Mini-bulk sampling of the one hectare Braúna 7 pipe, situated one kilometre to the east of the Braúna 3 pipe, resulted in the recovery of 30 diamonds, with a total weight of 3.87 cts from approximately 87 tonnes of kimberlite with an estimated recovery diamond grade of 4.5 cpht.

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).

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During 2009, Vaaldiam Resources 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 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 September 30, 2010, the carrying value of Vaaldiam's investment in LML is \$1,298,000 which represents the 20% interest in the Braúna properties. During the nine months to September 30, 2010, an equity loss of \$6,000 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 cts from a 3.6 tonne mini-bulk sample, inferring a diamond grade of 24 cph. 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 cts 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 September 30, 2010.

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

On February 24, 2010 the Company and BRL signed a binding Heads of Agreement ("HoA") for a transaction in which BRL 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"): BRL to complete satisfactory due diligence, BRL shareholders and the Government of Kenya ("GoK") to approve the transaction and BRL to raise minimum capital of A\$7 million. BRL 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 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 second 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.

On June 30, 2010, Votorantim Metals, a private Brazilian company, announced that it had acquired 50.1% of Milpo, giving it control, but that it intended to maintain Milpo's public listing on the Lima Stock Exchange.

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

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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 had been reduced to 27.75% as at June 30, 2010. Since then, Flemish has raised additional equity through a private placement at \$0.75 per share, in which the Company did not participate, and issued 60,000 common shares as compensation to a contractor. As a result the Company's ownership has been diluted to 22.56% at September 30, 2010.

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 nine months ended September 30, 2010, Vaaldiam recorded an equity loss of \$763,000 and recognized a gain on dilution of \$1,611,000.

Freegold Ventures Ltd.

Freegold Ventures Ltd. ("Freegold") (TSX: FVL, Frankfurt: FR4N), is a TSX listed company focused on the exploration of gold projects in Alaska. In addition to the Golden Summit Gold Project ("Golden Summit"), Freegold holds a 100% in lease interest in the Rob Gold Project near the Pogo Gold Mine in the Goodpaster Mining District of Alaska and has an exploration agreement with option to lease the Vinasale Gold project in central Alaska.

On August 22, 2008, the Company announced that it would provide a bridge loan of US\$2 million to Freegold, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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 \$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).

On May 28, 2010, Vaaldiam sold 380,000 shares in Freegold for proceeds of \$29,000. On August 27, 2010, Freegold common shares were consolidated on a 6:1 basis. On October 1, 2010, Freegold announced that it has received gross proceeds of US\$2.99 million from a non-brokered private placement.

As at September 30, 2010, the Company held 2,824,128 common shares in Freegold, which are held as an available-for-sale security, and has recognized a cumulative unrealized loss in the amount of \$1,139,000 in other comprehensive loss in the financial statements at September 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, Frankfurt: ND7A) at a deemed contract price of \$0.184 as part of the Freegold transaction.

As at September 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 \$170,000 in other comprehensive loss in the financial statements at September 30, 2010 due to the change in the market value.

On November 1, 2010, Terraco Gold Corp. ("Terraco") (TSX-V: TEN) and Western Standards announced that they have entered into a binding letter agreement providing for Terraco to acquire all of the outstanding securities of Western Standards in an all share transaction, by way of a plan of arrangement. Pursuant to the plan of arrangement, Western Standards' shareholders will receive 0.75 common shares of Terraco for each Western Standards common shares held. A definitive agreement between the two will be negotiated on or before December 6, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

SUMMARY OF QUARTERLY RESULTS

(\$'000s except for per share and capitalization)	Sep-30 2010	Jun-30 2010	Mar-31 2010	Dec-31 2009	Sep-30 2009	Jun-30 2009	Mar-31 2009	Dec-31 2008 Restated
(Gain)/Loss before income tax	(2,875)	1,682	2,254	30	31,347	2,231	1,647	7,283
(Gain)/Loss per share	(0.04)	0.02	0.03	0.00	0.65	0.05	0.03	0.15
Total assets	31,852	28,779	33,764	22,719	23,659	56,272	58,400	61,268
Compensation expense relating to stock options	22	(105)	824	(131)	182	(60)	35	-
Working capital	9,787	8,083	10,358	17,736	13,572	15,005	17,034	19,964
Mineral properties	6,796	5,949	5,298	-	3,811	9,680	9,680	9,680
Deferred exploration and development	-	-	-	-	2,868	27,046	27,046	27,046
Share Capital:								
Outstanding (000's)	71,627	71,388	71,388	48,226	48,226	48,081	48,081	47,661
Warrants (000's)	9,844	9,844	9,935	10,329	10,329	10,329	10,338	10,338
Options (000's)	4,807	4,607	4,617	4,245	4,315	3,977	4,357	4,476

FINANCIAL REVIEW

During the quarter ended September 30, 2010, a gain of \$2,875,000 or \$0.04 per share was recorded compared to a loss of \$31,347,000 or \$0.65 per share in the corresponding period of the prior year.

Corporate and general

During the quarter ended September 30, 2010, the Company incurred \$1,030,000 in corporate and general compared to \$1,262,000 in 2009.

- a) **Salaries and other compensation** – During the three and nine months ended September 30, 2010, salaries and other compensation totalled \$599,000 and \$1,382,000 compared to \$299,000 and \$893,000 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 head office decreased by \$52,000 during the third quarter of 2010 compared with the second quarter when transition staff have completed their notice periods and are no longer employees of the Company.
- b) **Travel** – During the three and nine months ended September 30, 2010, the Company incurred \$52,000 and \$215,000 of travel costs compared to \$61,000 and \$127,000 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 nine months ended September 30, 2010, the Company spent \$174,000 and \$681,000 on professional costs compared to \$757,000 and \$2,215,000 for the same periods during 2009. During the first nine 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

- d) **Shareholder and promotion** – During the three and nine months ended September 30, 2010, the Company spent \$91,000 and \$299,000 on shareholder and promotion compared to \$30,000 and \$434,000 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 nine months ended September 30, 2010, the Company spent \$179,000 and \$428,000 compared to \$62,000 and \$175,000 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 contingencies 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 nine months ended September 30, 2010, the Company reduced the provision for contingencies by \$5,000 and \$111,000. No amount was provided for in the corresponding periods in 2009.
- g) **Penalties/interest on taxes in Brazil** – During the three and nine months ended September 30, 2010, the Company made a provision for \$14,000 and \$205,000 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 for the three and nine months ended September 30, 2010 was \$22,000 and \$741,000 compared to \$182,000 and \$157,000 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 \$38,000 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 nine months ended September 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.

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 nine months ended September 30, 2010, the Company spent \$26,000 on general exploration, while in 2009, it spent \$Nil and \$101,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Foreign exchange loss

Foreign exchange losses were \$179,000 and \$264,000 for the three and nine months ended September 30, 2010 and \$150,000 and \$274,000 in 2009. These losses are a result of fluctuations in the various currencies, and any exchange loss that arises on translation is included in the determination of net loss for the period. As at September 30, 2010, the Company holds its cash and cash equivalents mainly 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 \$675,000 and \$805,000 for the three and nine months ended September 30, 2010 and \$442,000 and \$513,000 in 2009. The amount received during the nine months ended September 30, 2010 was attributable to \$506,000 received from Flemish (see Related Party Transactions) and the interest accrued from the Freegold loan and from GIC's and short term investments. During the nine months ended September 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.

Amortization

Amortization charges for non-operating fixed assets were \$61,000 and \$145,000 for the three and nine months ended September 30, 2010 and \$47,000 and \$143,000 in 2009. The increase is due to fixed assets acquired in the March 2010 acquisition of Vaaldiam Resources.

Gain on disposal of mineral property

During the three and nine months ended September 30, 2010, the Company realized a net gain after legal and other transaction related costs of \$3,053,000 and \$3,625,000 on the disposal of its 49% share in the Pukaqaqa project, which it sold to Milpo for US\$7,000,000 in the first quarter and the Kwale project, which it sold to BRL for US\$3,000,000 in the third quarter. No mineral properties were disposed of in 2009.

Impairment of loan receivable

During the three and nine months ended September 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 \$364,000 and \$769,000 were recorded for the three and nine months ended September 30, 2010 and \$98,000 and \$395,000 in 2009. This loss relates to the 22.56% interest in Flemish and its 20% interest in LML.

Gain on dilution of associated company

During the three and nine months ended September 30, 2010, the Company realized a gain of \$1,182,000 and \$1,611,000 on dilution in its associated company Flemish Gold Corp. This is as a result of private placements undertaken by Flemish during the nine months ended September 30, 2010, reducing Vaaldiam's equity stake from 30.81% at December 31, 2009 to 22.56% at September 30, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Kwale project

The Company incurred Kwale project related expenses/(recovery) in Kenya of (\$50,000) and \$Nil for the three and nine months ended September 30, 2010 and \$180,000 and \$627,000 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 September 30, 2010 were \$Nil and \$721,000. No transaction costs were incurred in 2009.

Severance costs

For the three and nine months ended September 30, 2010 the Company incurred or accrued severance costs totaling \$Nil (2009: \$Nil) and \$741,000 (2009: \$129,000) 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.

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES

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

(\$000's)	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash and cash equivalents, end of the period	11,174	367
Working capital, end of the period	9,787	13,572
Cash used in operating activities	(7,036)	(5,481)
Cash provided by (used in) investing activities	17,880	(13,426)
Cash used in financing activities	(718)	(26)

Liquidity

As at September 30, 2010, Vaaldiam had working capital of \$9,787,000, compared with \$13,572,000 at September 30, 2009. For the nine months ended September 30, 2010, Vaaldiam generated cash of \$9,912,000 compared with the use of \$18,933,000 of cash for the same period in 2009. Cash used in operating activities in the nine months ended September 30, 2010 increased primarily from a decrease in accounts payable of \$2,502,000 (2009: decrease of \$1,729,000), and an increase in receivables of \$49,000 (2009: increase of \$1,713,000). During the nine months ended September 30, 2010, cash was provided by investing activities with \$7,250,000 received as proceeds from the disposal of the Pukaqaqa project, \$3,053,000 received as proceeds from the disposal of the Kwale project and \$10,057,000 received on the maturity of short-term investments, while the Company used \$711,000 on the acquisition of Vaaldiam Resources, \$696,000 on the purchase of property, plant and equipment, and \$847,000 on pre-production costs including pre-stripping expenses.

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 \$718,000 together with all interest owing thereon.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.

On August 19, 2010, 200,000 options were issued to two new non-executive directors of the Company.

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

Capital Resources

As at September 30, 2010, Vaaldiam had cash of \$11,174,000. Vaaldiam currently has no consistent source of income and no immediate cash flow from its operations until the operations stabilize, which is expected to occur in the last 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 November 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
200,000	August 19, 2015	\$0.275	55,000
4,806,539			\$3,019,553

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

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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

VBM has leased office premises for two years commencing on May 21, 2010 and ending on May 20, 2012. At September 30, 2010 the Company has future cash commitments totaling approximately R\$124,000 or approximately \$75,000 using the closing exchange rate of R\$1.65 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 September 30, 2010, the Company has future cash commitments totalling approximately \$40,000 (December 31, 2009 - \$72,400) until August 31, 2011.

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 September 30, 2010, the Company has future cash commitments totalling approximately \$494,000 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 22.56% ownership interest in Flemish as at September 30, 2010. Certain directors, officers and employees of the Company currently hold 14,155,000 (30.06%) 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, Roland Bertin, a non-executive director, and a company controlled by him, who hold 1,750,000 common shares, and Robert Jackson, the President and CEO of Vaaldiam, who holds 1,300,000 common shares. The Chairman, as Chairman and CEO of Flemish, received an annual salary of \$125,000 from Flemish, which was increased to \$250,000 effective October 1, 2010. During October 2010, the Chairman received a bonus of \$50,000 as well as a retrospective salary adjustment of \$100,000 for the years for which no salary was paid. The CEO is also a director of Flemish and receives no compensation from Flemish. The Chairman and the CEO hold 980,000 and 480,000 stock options, respectively, at exercise prices of between \$0.50 and \$0.75 per option.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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- b) The Company charges Flemish for office space and other expenses. During the three and nine months, the Company charged Flemish \$6,600 and \$16,600 for office space and expenses. No other services are provided and charged for by the Company. As at September 30, 2010, there were no amounts outstanding from Flemish.
- c) In October 2009, Vaaldiam entered into an agreement with Flemish whereby Flemish would pay to Vaaldiam a share of the settlement costs and legal expenses in relation to the settlement of a legal action brought forth by Jaguar Financial Corp. ("Jaguar") against Flemish, Freegold and Vaaldiam. Under the terms of the agreement, the payment to Vaaldiam would be conditional on the ability of Flemish to raise additional financing. In July 2010, Flemish completed a financing of approximately \$6,555,000 and paid \$506,000 to Vaaldiam in accordance with the agreement.

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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
- 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 September 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 September 30, 2010 were appropriately designed.

Changes in ICFR:

In the quarter ended September 30, 2010, a Controller and a Tax Analyst were added to the accounting office in Brazil. This, together with the appointment of the Director of Finance and Administration in Brazil in the second quarter of 2010, is part of the program 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 its mineral resources, the recoverable value of its mineral properties and related deferred expenditures, the carrying value of its inventories, 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.

Vaaldiam is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable resources, 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.

Mineral resources are estimations that are compliant with NI 43-101 standards. Such estimation requires subjective assumptions based on the evaluation of geological, geophysical, engineering and economic data. This data could change over time as a result of new information gathered from development or mining activities, production data recorded, and changing market conditions that may affect the economic viability.

The recoverability of the carrying value of the Company's 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.

Inventories are valued at the lower of cost and net realizable value. Net realizable value is based on the estimated selling price in the ordinary course of business, less applicable selling expenses. The estimation of the selling price may be subjective and is based on management's best estimate of the quality of the stones produced and the price that they will command under market conditions prevailing at the time of sale. Mining and production costs are being allocated to inventories based on the average cost method. Cost includes direct labour, other direct costs, related amortization and depreciation, and production overhead based on normal operating capacity.

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 will depend upon a variety of factors including the market value of the Company's share and financial objectives of the

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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 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.

New accounting policies:

During 2010, the Company adopted the following accounting policies with respect to new transactions incurred during the year.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the average cost method. The cost includes direct labour, other direct costs, related amortization and depreciation, and production overhead based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Revenue Recognition

Revenue from the sale of rough diamonds is recognized when title transfers and the rights and obligations of ownership pass to the purchaser, which generally occurs when the goods are received by the customer. It is at this point that the purchase price is agreed, delivery has occurred, and all significant acts have been completed.

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Revenue from the sale of gold produced is recognized as a separate revenue stream at the time the goods are received by the customer.

Prestripping Costs

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

Asset Retirement Obligations

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

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 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 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. In the third quarter of 2010,
- (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.

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(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.

With the acquisition of Vaaldiam Resources in March 2010, the Company acquired some near-production operations which necessitated a review of the IFRS tasks performed to date. To facilitate the implementation phase, the Company engaged the services of a third party to assist in the process.

In the third quarter of 2010, a quick scan was made to update the scoping and impact analysis to identify key differences between the Company's current accounting policies, including new accounting policies adopted in 2010, and those required under IFRS. Results of the scan are reflected in the key differences listed below.

Technical accounting papers have been drafted to address any such differences and to identify alternative accounting policies available between the Canadian GAAP and the equivalent IFRS. Key decisions and judgments concerning IFRS policy selection will be presented to the audit committee for review and approval.

Based on the policies selected, the Company will attempt to quantify, where material, the impact of selecting certain accounting policies. A comparative set of financial statement, including statement notes, will then be developed to demonstrate disclosure differences from Canadian GAAP to IFRS disclosures.

Key differences in accounting policies

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.

These differences have not been quantified, but the Company 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 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, including the Company's purchase of Vaaldiam Resources, 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) 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 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

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of property, plant and equipment on the transition date, and the Company plans to adopt the cost model. 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, but will use the cost model on a going forward basis.

IAS16 calls for a higher degree of component accounting for property, plant and equipment than CGAAP. The Company does not expect to have many new components added, but will review its accounting system and depreciation rates to assess if any change is required.

Other accounting policies that may be affected by the transition to IFRS are:

(i) 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 and determining the amount of capitalized pre-exploration costs that must be expensed under IFRS.

(ii) 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.

(iii) 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) 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. Under IFRS, there is no distinction between different types of foreign operations. The relationship between the Company and its foreign operations is a factor in determining the functional currency of the foreign operations which is assessed separately from the parent. If the functional currency of a foreign operation is hyperinflationary, then current purchasing power adjustments are made to its financial statements prior to translation. The financial statements are then translated at the closing rate at the end of the current period. In order to translate to presentation currency, the financial statements of the 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 at historical rates. The financial statements are then translated at the closing rate at the end of the current period. The Company is currently assessing the functional currency of each of its entities.

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(iv) 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, 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. Alluvial mining operations are less predictable than conventional hard rock mining operations, and the operations may be subject to fluctuating performance. 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.

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,

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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 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

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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.

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;

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- 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.

OUTSTANDING SHARE DATA

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

Common shares outstanding as at November 12, 2010	71,626,813
Shares issuable on exercise of options	4,806,539
Shares issuable on exercise of warrants	9,843,769
Fully diluted shares outstanding as at November 12, 2010	86,277,121

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.

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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.Geol., a consultant of the Company who is a "qualified person" within the meaning of National Instrument 43-101.