



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND
FINANCIAL PERFORMANCE
FOR THE THREE MONTHS ENDED MARCH 31, 2011**

All dollar figures are quoted in Canadian dollars unless otherwise specified

TABLE OF CONTENTS

PAGE

Cautionary Note on Forward-Looking Statements	1
Company Highlights.....	1
Overview	2
The Rough Diamond Market	2
Operations	2
Investments	9
Summary of Quarterly Results	10
Financial Review	11
Financial, Liquidity and Capital Resources	11
Contractual Obligations and Other Commitments.....	13
Off-Balance Sheet Arrangements.....	13
Related Party Transactions	13
Internal Control over Financial Reporting	13
Critical Accounting Estimates.....	14
Uncertainties and Risk Factors	14
Outstanding Share Data.....	17
General	18
Indemnities.....	18
Other Information.....	18

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

This Management's Discussion and Analysis ("MD&A"), which has been prepared as of June 9, 2011, provides a review of the financial performance of Vaaldiam Mining Inc. ("Vaaldiam" or the "Company") and should be read in conjunction with the unaudited comparative condensed consolidated financial statements and related notes for the three months ended March 31, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). 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.

COMPANY HIGHLIGHTS FOR THE QUARTER ENDED MARCH 31, 2011 ("Q1-2011")

Projects

- **Braúna Kimberlite Project:**
 - ◆ On March 4, 2011, Vaaldiam signed an agreement with its joint venture partners which allows Vaaldiam to increase its interest in the Braúna project to 51% by paying approximately US\$6.5m to the joint venture partners over an 18-month period and financing the project development cost to production.
 - ◆ On April 7, 2011 Vaaldiam issued a National Instrument 43-101 ("NI 43-101") compliant Preliminary Assessment Report ("PA Report") on Braúna 3 ("B3") by Coffey Consultoria e Serviços Ltda. ("Coffey"), a subsidiary of Coffey Mining, which presented: A conceptual open pit mine life of 5 years based on a production rate of 720,000 tonne ("t") per year, waste stripping ratio of 4.45 and a total open pit diamond production of 573,000 carats ("cts") for Coffey's Mineral Resource and 839,000 cts for the Mineral Resource from A.C.A. Howe International ("Howe"). This excludes any potential below 200 metres at B3 or from other nearby kimberlites.
 - ◆ Project capital cost of US\$25 million (including 15% contingency) and average open pit life of mine operating cost of US\$31/t run of mine production ("ROM") in a conceptual mine plan using open pit mining to a depth of approximately 200 metres below surface.
 - ◆ Two Net Present Valuations at a 10% discount rate and an independent diamond value of US\$338/ct:
 - Base case pre-tax Net Present Value ("NPV") of US\$33.6 million and Internal Rate of Return ("IRR") of 42%, using Coffey's NI43-101 Mineral Resource with base case diamond grade of 16.8 cts per 100 tonnes ('cpht'); and
 - Second scenario pre-tax NPV of US\$101.0 million and IRR of 107% using the NI43-101 Mineral Resource diamond grade of 24.58 cpht presented by Howe in December 2010.
- **Duas Barras Mine:**
 - ◆ During Q1-2011 a total of 4,355 cts of diamonds and 6.9 kilograms (221 troy ounces) of gold were recovered from 58,397 bank cubic metres ("bcm") resulting in an average diamond grade of 0.07 cts per bcm, and an average gold grade of 0.12 grams of gold per bcm.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

- ◆ A total of 9,379 cts of diamonds were sold during Q1-2011 for gross sales proceeds of US\$ 854,000. A total of 7.2 kg (231 troy ounces) of by-product gold was also sold for total gross sales proceeds of US\$321,000.
- ◆ In April 2011, the Company decided to suspend operations at Duas Barras indefinitely so that it can focus its resources on the greater potential at Braúna.

Investments and Royalty Transactions

- Vaaldiam owns a 1.5% gross revenue royalty on all product from the Kwale Mineral Sands Project (the "Kwale" project) in Kenya. In May 2011, Base Resources Limited ("BRL", previously Base Iron Limited) (ASX: BSE) announced that it has completed the Enhanced Definitive Feasibility Study for the project with increased ore reserves and a projected mine life of 13 years. BRL expects production to commence mid-2013.
- As at March 31 2011, Vaaldiam owns 10,625,000 common shares (22.56%) of Flemish Gold Corp. ("Flemish", previously Kivu Gold Corp.), a private corporation incorporated under the Canada Business Corporation Act, focusing on precious metals exploration in sub-Saharan Africa. In May 2011, Flemish closed a \$10 million private placement at \$1.00 per unit, each unit comprising of one common share and one warrant to acquire one common share at \$1.20 for 24 months. Vaaldiam did not participate in the private placement and its shareholding in Flemish has been diluted down to 18.55 %.

Financial Position

- As at March 31, 2011, Vaaldiam has a cash and cash equivalents position of \$5.6 million, and working capital of \$3.7 million. In addition, Vaaldiam owns marketable securities valued at \$2.3 million, as well as 22.56% of Flemish and 51% of the Braúna project in Bahia, Brazil.

OVERVIEW

Vaaldiam is organized 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 mine development and exploration in Brazil. It also holds investments in companies with advanced mineral projects as well as royalty interests.

THE ROUGH DIAMOND MARKET

Rough diamond prices increased by 25% during Q1-2011 in response to a supply/demand equation that favours producers. Strong demand from new markets such as China, where diamond jewellery sales grew by 25% during 2010, and India, where diamond jewellery sales grew by 31% during 2010 (source: DeBeers), is fuelling the strong growth in rough diamond prices. The continued recovery of the US economy, which historically has been the backbone of the diamond market, is helping to build a solid foundation for continued and sustainable growth in diamond jewellery sales. Industry experts project a flat production of diamonds over the next five to seven years, with the prospect of a decline thereafter unless new mines are brought on stream. Therefore, the outlook for rough diamond prices appears strong and companies such as Vaaldiam with production or pending production should benefit.

OPERATIONS**DEVELOPMENT****Braúna Project, Bahia, Brazil**

The Braúna project is located approximately 7 kilometres south of the town of Nordestina in the state of Bahia in Brazil. The Braúna tenements cover an area of approximately 12,130 hectares. Two additional licences, Uмба and Aroeira, covering an additional 2,800 hectares, are located 12 kilometres west-northwest and 50 kilometres west-southwest of Nordestina.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

The mineral rights are comprised of twelve exploration licences. Of these claims, two of them were acquired from Majescor Resources Inc. and are subject to a 1% gross sales royalty (net of selling costs) on the sale of diamonds produced from these claims. Four exploration licences in the south and west of the property that were acquired from Mineração Montes Alegre Ltda. are subject to a 5% gross sales royalty (net of selling costs).

On March 4, 2011, Vaaldiam entered into an agreement with the existing joint venture partners whereby it increased its interest from 20% to a controlling interest of 51% in the Braúna project for a transaction consideration of approximately US\$6.5 million. A payment of approximately US\$0.9 million was made on signing. US\$1.5 million is scheduled for August 4, 2011 and the balance of approximately US\$4.1 million is required on June 4, 2012. Pursuant to the agreement, Vaaldiam will act as operator for the project and will be responsible for the financing of a feasibility study and, if proven to be economically feasible, will finance the building and development of a mine. Various milestones have been agreed between Vaaldiam and the existing partners, and Vaaldiam's project development cost will be repaid in full from the project's profits before distribution of the profits to the joint venture partners. Should Vaaldiam not meet the payment schedule or certain milestones by pre-determined deadlines, where the reason for such failure was within the reasonable control of Vaaldiam, the partners have a right to buy back the 31% interest for the amount of the transaction consideration that is paid up to the buy-back date, and under certain circumstance, the right to purchase Vaaldiam's remaining 20% interest at fair value as determined by an independent third party. Should this happen, Vaaldiam would cease to be operator and if the project is successfully being developed other than by Vaaldiam, Vaaldiam's contribution to the project development cost will be repaid out of the project's profits.

The current focus of attention is on the Braúna 3 pipe which encompasses about 2 hectares and is one of 22 kimberlite occurrences discovered to date on the property. In 2007 and early 2008, a drilling program was undertaken to delineate the Braúna 3 pipe in sufficient detail to support a resource calculation. A total of 74 holes were drilled on the Braúna 3 pipe utilizing 25 metre drill spacing, delineating the pipe to a depth of approximately 200 metres. The kimberlite continues below 200 metres and is open at depth.

In 2010, the Company 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 was 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. A total of 751.02 dry tonnes of kimberlite has been processed from the northern lobe of the pipe and resulted in the recovery of 35.42 cts, an average recovered grade of 4.7 cpht. In total, 4,909.26 dry tonnes of kimberlite were processed, recovering 5,064 stones, resulting in a dry grade of 21.5 cpht, with an average stone size of 0.21 cts per stone. 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)
South	4,158.24	4,904	1,021.97	0.21	24.6
North	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 recrush material, glove box rejects, grease table and DMS float tailings at the completion of the program

The following NI 43-101 compliant mineral resource (the "Howe Mineral Resource") is summarized from the Technical Report titled "Technical Report and Mineral Resource Estimate on the Braúna 3 Kimberlite, Braúna Kimberlite Property, Bahia State, Brazil for Vaaldiam Mining Ltd." dated December 23, 2010 and prepared by Howe:

Lobe	Resource Category	Volume (m ³)	Density (tonne/m ³)	Dry Tonnes	Diluted Grade (cpht)	Carats	Price (US\$/ct)
South	Indicated	233,000	2.7	629,000	24.58	155,000	338
	Inferred	1,390,000	2.7	3,753,000	24.58	922,000	
North	Indicated	247,000	2.7	667,000	4.72	31,000	98
	Inferred	386,000	2.7	1,042,000	4.72	49,000	

- Indicated Resource defined from surface to the 235mRL
- Grade used is the diluted diamond grade obtained from the individual bulk samples.
- Mineral Resources are not accumulated within an optimized pit shell.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

- Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issues.
- The volume of the North and South Lobes includes internal dilution.
- The quantity and grade of reported Indicated and Inferred Resources in this estimate are conceptual in nature. There is no guarantee that all or any part of the Mineral Resource will be converted into a Mineral Reserve.
- Due to rounding, figures may not add up to the totals shown.
- A 1 millimetre bottom cut-off is used for the Mineral Resource.

In the Indicated Category, 83.3% of the carats are derived from the south lobe and 16.7% from the north lobe. In the Inferred Category, 95.0% of the carats are derived from the southern lobe and 5.0% from the northern lobe. Diamond values reported are the average estimated sales price of two independent diamond valuations of 1,013.75 carats of rough diamonds recovered from the south lobe and 34.74 carats from the north lobe. The diamond valuation was completed on November 1, 2010 using Antwerp market data by Diamond Counsellors International of London, U.K. and International Economic Strategies of Antwerp, (as reported by Vaaldiam on December 2, 2010).

In April 2011, the Company filed a NI 43-101 compliant Technical Report titled "Braúna Kimberlite Project, Bahia, Brazil, Independent Technical Report, Preliminary Assessment" dated March 31, 2011 and prepared by prepared by Coffey. The Coffey Report contained two separate economic models using a mineral resource estimate by Howe, and a modified NI 43-101 mineral resource prepared by Coffey as part of the PA Report.

Coffey reviewed the Howe Mineral Resource statement and adjusted the diamond grade so that it is based on volume (ct per 100m³) using density data acquired from the surface bulk samples and drilling programs, to account for a difference in density between saprolitic samples excavated at surface and the harder, fresh kimberlite at depth. Coffey estimated an average resource diamond grade of 16.8 cpht for their base case scenario for the south lobe of the B3 kimberlite, and a diamond valuation of US\$338/ct. Coffey did not consider the north lobe in the PA Report because the diamond grade based on the surface sampling completed to date was too low to be declared a resource at a value of US\$100 per ct.

The following mineral resource (the "Coffey Mineral Resource") is summarized from the Coffey report.

South Lobe	Resource Category	Volume (m ³)	Dry Tonnes	Diluted Grade (cpht)	Carats	Price (US\$/ct)
Saprolite	Indicated	14,700	24,200	27.7	6,700	338
Fresh Rock	Inferred	1,606,100	4,410,100	16.6	733,000	

Coffey prepared a conceptual mine plan, process plant design, capital cost and operating cost parameters, and a preliminary economic assessment based on the mineral resource block model prepared by Howe. Coffey based their economic assessment on two open pit mining scenarios focused only on the South Lobe of the B3 kimberlite. Coffey's 'Base Case' scenario is based on 3.49 million tonnes ('Mt') of the Coffey Mineral Resource. The Base Case financial model uses a diamond price of US\$338/ct, which is the average value of 1,013.75 cts of diamonds recovered from the South Lobe of B3.

Conceptual Mine Plan

The conceptual mine plan envisions open pit mining of the South Lobe of the B3 kimberlite to a depth of approximately 200 metres. The mining sequence and design was determined by optimizing the pit depth to achieve a production rate of 720,000 t/year to support a processing rate of 100 t/hr. The pit designs were finalized using the Whittle pit optimization software on both the Coffey Base Case and Howe Resource models, with a stripping ratio of 4.45. The plan assumes that contract mining will be employed for all mining operations.

Diamond Processing Plant

Coffey proposed a diamond processing plant capable of processing 720,000 t/year of kimberlite ore. Ore preparation will include initial jaw and cone crushing followed by tertiary crushing, scrubbing and screening with vibrating screens. Ore is concentrated in a Dense Media Separation plant and the diamonds separated from the heavy mineral concentrate using X-ray sorting and grease-table technology. Diamond recovery is estimated at 98% of the resource grade based on a bottom screen size cut-off of 1.0mm, and an upper-screen size cut-off of 30mm to allow the recovery of large diamonds.

Capital Cost

Coffey has estimated a capital cost, for the mining, diamond processing plant and infrastructure of US\$25 million, including a 15% contingency. It is envisioned that contractors will be used for site infrastructure construction. Coffey based its estimate of the capital cost on factored costs from previous project equipment capital cost information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Discipline	US\$	% of Total
Earthworks & Roads, Civils, Building Works	5,160,098	23.9%
Mechanical Equipment Supply and Erection	3,971,066	18.4%
Piping, Steel and Erection	2,640,859	12.2%
Electrical Equipment and Instrumentation	2,263,593	10.5%
Indirect and Owners Costs	2,452,226	11.4%
Pre-Production Costs	282,949	1.3%
EPCM	1,509,062	7.0%
Transport	100,000	0.5%
Contingency	3,187,623	14.8%
Total Scoping Study Plant Capital Cost Estimate	21,567,475⁽¹⁾	100.00%

⁽¹⁾ Totals may not add due to rounding

Other mining and infrastructure capital costs are estimated at US\$3.3 million.

Operating Cost

Coffey has considered a processing rate of 720,000 t/year ROM and an average waste stripping ratio of 4.45:1. The mining operation is envisioned to mine and transport an average of 3.9Mt per annum ('Mtpa') ore and waste and a total of 19.0Mt over the expected 5-year open pit life of mine, excluding any potential below 200 metres and from other nearby kimberlites. Coffey's base case operating costs have been derived from first principles and from reference to contract mining costs at comparable-sized mining operations in Brazil. In summary, mining costs are estimated at US\$4.25/t mined. Costs for processing and general and administration are estimated at US\$6.23/t and US\$1.72/t respectively.

Exploration on the Braúna property other than B3

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 second largest diamond recovered from the B8 kimberlite was a 0.92 carat pink diamond, while another pink stone was recovered, which appeared to have been broken during processing. The B8 occurrence is a vertically oriented kimberlite dike forming a 1,000 metre long section of the northwest trending dike system. Recent exploration conducted in the vicinity of the 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).

During 2009, VRL 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

MANAGEMENT’S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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 March 31, 2011, the carrying value of Braúna on the Company’s books is \$13.5 million.

EXPLORATION

Catalão Property, Goiás, Brazil

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. 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 could 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 March 31, 2011.

SUSPENDED OPERATIONS

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 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. By the end of Q1-2011, as Duas Barras continued to produce diamonds and gold at a grade lower than expected, the Company ceased pre-production activities at the mine to focus its resources on development of the Braúna kimberlite (as reported on April 26, 2011). Mining operations at the Chapada Mine had been suspended at the end of June 2008 in response to the economic crisis and have not been restarted. Both mines are currently on care and maintenance.

Duas Barras Mine, Minas Gerais, Brazil

The Duas Barras Mine is situated 150 kilometres north of the town of Diamantina in the State of Minas Gerais, Brazil. The mineral rights cover an area of 170.89 hectares and extend along a five kilometre length on the left bank of the upper Jequitinhonha River, which has been a significant diamond producing area since the mid-1700s.

In the Technical Report titled “Technical Report on the Duas Barras diamond mine, Minas Gerais state, Brazil: Presenting details of diamond resources compliant with Canadian National Instrument 43-101” authored by Katharine M. Masun, HBSc. (Geol.), MSc. (Geol.), P.Geo, dated February 16, 2010, a NI 43-101 compliant mineral resource estimate for Duas Barras as of that date 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

The following table shows the mining activities of the project since it restarted in 2010:

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Quarter Ended	Overburden Removed (bcm)	Gravel Mined (bcm)	Total Mined (bcm)
2010			
Jun. 30	814	0	814
Sept. 30	127,010	11,245	138,255
Dec. 31	89,656	44,934	134,590
Total 2010	217,480	56,179	273,659
2011			
Mar. 31	52,309	41,800	94,109
Total 2011	52,309	41,800	94,109
Total	269,789	97,979	367,768

During Q1-2011 a total of 4,355 carats of diamonds and 6.9 kilograms (221 troy ounces) of gold were recovered from 58,397 bcm of gravel resulting in an average diamond grade of 0.07 cts per bcm and an average gold grade of 0.11 grams of gold per bcm.

The following table shows the diamond recovery to the end of March 31, 2011:

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⁾
Dec. 31	54,932	102,166	8,161	0.08	0.15 ⁽¹⁾
Total 2010	78,475	109,977	8,804	0.08	0.11
2011					
Mar. 31	58,397	37,852	4,355	0.12	0.07 ⁽¹⁾
Total 2011	58,397	37,852	4,355	0.12	0.07
Total	136,872	147,829	13,159	0.09	0.10

⁽¹⁾ Gravel processed included feed from 2008 stockpiles:
12,298 bcm for 2010-Q3
25,945 bcm for 2010-Q4 and
3,034 bcm for 2011-Q1

An additional 47.25 cts were added to the diamond inventory in 2011. The stones were recovered from fines, grease table tailings and exploration from 2006, 2008 and 2010.

Two diamond sales totaling 6,227 cts were made in January 2011 at an average value of US\$83.88/ct, the lower price reflecting the small size of the diamonds recovered from processing gravels that blended the low grade 2008 stockpile and transitional gravels. In March 2011 a 3,152 cts parcel comprised of a mixture of smaller diamonds from December 2010 production and a production parcel of diamonds with a larger average stone size from the first half of January 2011 production sold for an average value of US\$105 per ct. There were 3,931 cts remaining in inventory as at March 31, 2011. These were subsequently sold in May 2011 at an average value of US\$138.67 per ct. The following table provides a summary of the diamond sales completed to date in 2011:

Month of Sale	Carats	US\$	US\$/ct
Jan. 2011	1,278.18	\$122,298.56	\$ 95.68
Jan. 2011	4,949.01	\$400,027.03	\$ 80.83
Mar. 2011	3,152.26	\$331,186.84	\$ 105.06
2011-Q1	9,379.45	\$853,512.43	
May 2011	3,930.31	\$545,000.93	\$ 138.67
2011-Q2	3,930.31	\$545,000.93	
Total	13,309.76	\$1,398,513.36	\$ 105.07

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

In 2010, 4.7 kg or 151 ounces of gold was recovered. This included 1.14 kg recovered from the processing of sand tailings that were stored in temporary tailings ponds between June and August 2010 when stripping was still under way. The balance of 3.6 kg was recovered between August and December 2010 from 78,475 bcm of gravel, at an average grade of 0.05 g per bcm. In 2011-Q1, a further 6.9 kg or 221 ounces of gold were recovered at an average grade of 0.07 per bcm, and 7.2 kg or 231 ounces of gold were sold for gross proceeds of US\$321,000, representing US\$1,390/oz.

During the pre-production period, expenses incurred are deferred and any revenues realized are recorded as a reduction in deferred expenditures. As the restart of the Duas Barras operation was delayed, with more stripping required than was originally anticipated, and the mine was still in pre-production at the end of the year, the deferred expenditures for Duas Barras were increased above the original level. In addition, operating costs were higher than expected driven in part by escalating fuel costs, while the grades of both diamonds and gold were lower than previously expected. At the end of 2010, the Company reviewed the property for impairment and in the last quarter of 2010 decided to record an impairment loss of approximately \$4.7 million. With the closing down of Duas Barras in April to focus on Braúna, the Company reviewed the property for further impairment and took an impairment loss of \$6.1 million in 2011-Q1. This represents the full carrying value of Duas Barras mine and plant and equipment as at March 31, 2011.

Chapada Mine, Mato Grosso, Brazil

The Chapada Mine is located in the State of Mato Grosso, Brazil some 80 kilometres northeast of the city of Cuiabá. The Chapada mining tenements and the Chapada Mine are approximately 28 kilometres by gravel road northeast of the town of Chapada dos Guimarães. The Chapada tenements cover an area of around 284 square kilometres. The current defined mineral resource is contained on the Quilombo North and Quilombo South tenements, which have been amalgamated into one mining concession, and Peba Lagoinha, for which a mining concession was granted in December 2007. These three areas together cover some 15 square kilometres.

Mining operations at the Chapada Mine remained suspended during 2011-Q1 with a minimum of staff and security personnel.

OTHER**Royalty Interests****Kwale, Kenya**

Vaaldiam held four mineral sands properties in Kenya (Kwale, Kilifi, Vipingo and Mambui) through its subsidiary TKL under four Special Licences granting exclusive rights to prospect and explore for non-precious minerals.

The Kwale Project covers an area of 56 km² and is located 40 km south of Mombasa and approximately 10 km inland from the Indian Ocean coastline. It consists of three large Aeolian dunes containing quantities of heavy minerals ilmenite, rutile and zircon. The Company completed a feasibility study in 2000, carried out detailed design for construction in 2006 and obtained a 21 year renewable Special Mining Lease for the Project in 2004.

On February 24, 2010 the Company and BRL signed a binding Heads of Agreement ("HoA") for a transaction in which BRL acquired the Kwale project, all the intellectual property associated with Vaaldiam's mineral sands projects in Africa and an option to acquire 100% of TKL. Pursuant to the sale which closed on July 30, 2010, 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.

On February 25, 2011, BRL updated a JORC-compliant Resource estimate showing an increase of 7.17 million tonne in Measured and Indicated Resources at the Central and South Dunes for a combined total of 146 million tonnes at 4.89% Total Heavy Mineral (1% cut-off). The estimate contained mineral increases of 16% for each of rutile and ilmenite but a decrease of 3% for zircon. The net result is an implied mineral assemblage value per resource tonne that is 4% higher than previous resource estimates. 59% of the combined Resource is now in the "Measured" category. On May 13, 2011, BRL announced the completion of the enhanced

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

definitive feasibility study which projected an estimated NPV of US\$395 million at a 10% discount rate, a mine life of 13 years and production planned to commence mid-2013. BRL also reported good progress in its project financing.

Pukaqaqa, Peru

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 million in cash, which it received. The Company will also receive US\$4 million if the project begins commercial production, a second payment of US\$4 million 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.

Crypto Property

The Crypto deposit is a zinc-copper deposit with a high level of indium and recoverable amounts of gold and silver currently held by Lithic Resources Ltd. ("LTH"), a company listed on the TSX-Ventures Exchange. It lies in western Utah in the United States and has been subject to a delineation of a significant historical zinc resource and LTH is due to complete a pre-feasibility study on the project. Vaaldiam, through its wholly-owned subsidiary, VRL, holds a 1.5% Net Smelter Royalty ("NSR") interest on all production from the Crypto property. Vaaldiam will also be entitled to receive a one-time cash payment of \$1,000,000 upon LTH's securing financing to bring the Crypto property into production. In 2009, LTH has updated the resource estimates for the Crypto deposit and substantially increased the size of its deposit. In 2010, a preliminary economic assessment was completed and an extensive drilling program was recommended. The project is fully permitted and bonded.

TSR Process

Vaaldiam had developed a proprietary process (the "TSR Process") used to upgrade ilmenite into a high-grade titanium dioxide feedstock known as synthetic rutile. The TSR Process employs a chemical processing technology to produce a synthetic rutile product containing up to 97% titanium dioxide, the highest level of content in the marketplace. In 1997, Vaaldiam submitted several patent applications to various international Intellectual Property Offices around the world for its TSR Process. To date, Vaaldiam has been granted patents in the United Kingdom, Canada, New Zealand, Australia, South Africa, Malaysia, Norway and the United States of America. Despite writing off its investment in the TSR Process in 2003 as there was no imminent commercial application in the technology, Vaaldiam has maintained the patents in good standing.

INVESTMENTS**Flemish Gold Corp.**

Flemish is an exploration company focusing on sub-Saharan Africa. Its present focus is on three major exploration properties in Burundi covering approximately 2,600 km² and a fourth one that is under application. It has completed drilling at three locations at the Muhwazi property and will be extending the drilling for the rest of the year. About 2,000 drill samples are either in assay or en route for assaying. In addition, it has collected some 3,000 termite mound samples and over 1,000 stream sediment samples, many of which yielded visible gold when panned. Flemish will be installing a sample preparation facility at its base of operations, which will be managed by an ISO-certified company that provides international assay laboratory services. This is expected to significantly expedite the assay turnaround time.

Vaaldiam holds 10,625,000 common shares in Flemish ("Flemish shares"). On May 3, 2011, Flemish closed a private placement of \$10 million. The placement consisted of 10 million units priced at \$1.00, each unit comprising of one common share of Flemish and one warrant to purchase one common share of Flemish at \$1.20 for 24 months. Vaaldiam did not subscribe to the placement and as a result, its ownership has been diluted from 22.56% to 18.55%.

As at March 31, 2011, the carrying value of Flemish on the Company's books is \$1,805,000. During the quarter ended March 31, 2011, \$356,000 was recorded as equity losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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% 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.

As at March 31 2011, the Company held 2,824,128 common shares in Freegold, which are held as an available-for-sale security, at a carrying cost of \$2,033,000 and has recognized an unrealized gain in the amount of \$564,000 (net of tax of \$NIL) for the quarter and a cumulative unrealized loss of \$122,000 in other comprehensive loss in the financial statements at March 31 2011 due to the change in the market value. At the same time, the Company has a loan receivable from Freegold in the amount of \$855,000 bearing an annual interest rate of 6% payable quarterly expiring September 30, 2011.

Terraco Gold Corp.

As at January 1, 2011, Vaaldiam held 1,000,000 common shares in Western Standard Metals Limited ("Western Standard") (TSX-V: WSM, Frankfurt: ND7A). On November 1, 2010, Terraco Gold Corp. ("Terraco") (TSX-V: TEN) and Western Standard announced that they have entered into a binding letter agreement providing for Terraco to acquire all of the outstanding securities of Western Standard in an all share transaction, by way of a plan of arrangement. Pursuant to the plan of arrangement, which was completed on January 24, 2011, Western Standard's shareholders received 0.75 common shares of Terraco for each Western Standard common shares held. As a result of the merger, Terraco now holds a number of advanced and early-stage gold-silver projects in Idaho and Nevada, USA.

As at March 31, 2011, Vaaldiam held 750,000 common shares in Terraco, which were held as an available-for-sale security at a carrying cost of \$233,000, and has recognized an unrealized loss in the amount of \$47,000 (net of tax of \$NIL) for the quarter and a cumulative unrealized loss in the amount of \$163,000 in other comprehensive loss in the financial statements at March 31, 2011 due to the change in the market value. Subsequent to March 31, 2011, Vaaldiam had disposed all shares in Terraco for gross proceeds of approximately \$230,000.

SUMMARY OF QUARTERLY RESULTS

(\$'000s except for per share and capitalization)	Mar-31 2011	Dec-31 2010	Sep-30 2010	Jun-30 2010	Mar-31 2010	Dec-31 2009 ⁽¹⁾	Sep-30 2009 ⁽¹⁾	Jun-30 2009 ⁽¹⁾
Net (Profit)/Loss	7,641	6,210	(672)	(711)	2,146	30	31,347	2,345
Net (Profit)/Loss per share	0.11	0.09	(0.01)	(0.01)	0.04	0.00	0.65	0.05
Total assets	32,222	25,868	33,147	32,918	34,314	22,719	23,659	56,272
Working capital	3,675	7,619	9,524	7,820	10,095	17,736	13,572	15,005
Mineral properties and deferred exploration and evaluation expenditures	15,395	4,828	10,364	12,471	8,364	-	6,679	36,726
Share Capital:								
Outstanding (000's)	71,633	71,627	71,627	71,388	71,388	48,226	48,226	48,081
Warrants (000's)	6,094	6,094	9,844	9,844	9,935	10,329	10,329	10,329
Options (000's)	4,747	4,807	4,807	4,607	4,617	4,245	4,315	3,977

⁽¹⁾ As Vaaldiam adopted IFRS with effect from January 1, 2010, the 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, the quarterly information for 2011 and 2010 may not be comparable to that for 2009.

The Company acquired Vaaldiam Resources Ltd. ("VRL") in March 2010 and for the past three quarters had been undergoing pre-production work at Duas Barras, one of VRL's mines, with the view to re-activating its production. In April, following several months of lower than expected grades and higher than expected costs, the Company decided to suspend work at Duas Barras. The trend of the net (profit)/loss for the last 8 quarters is impacted by asset impairment losses recorded in respect of write-down to mineral properties and deferred exploration expenditures of Kwale in Q3-2009 and of Duas Barras in Q4-2010 and Q1-2011; the

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

subsequent reversal of impairment of Kwale in Q2-2010 under IFRS; acquisition costs incurred in acquiring VRL in Q1-2010; the sale of asset of Pukaqaqa in Q1-2010 and Kwale in Q3-2010.

FINANCIAL REVIEW

During the three months ended March 31, 2011, a loss of \$7,641,000 or \$0.11 per share was recorded compared to a loss of \$2,146,000 or \$0.04 per share in the corresponding period of the prior year.

Corporate and general

(\$'000s)	Mar-31 2011	Mar-31 2010	Change	% Change
Payroll	532	338	194	57.5%
Professional fees and services	207	96	111	115.7%
Shareholder costs and promotion	49	62	(13)	(20.7%)
Travel	26	85	(59)	(69.9%)
Other	138	63	75	119.0%
Financial charges and provisions	(40)	-	(40)	-
Total	912	644	268	41.3%

Overall, the increase in corporate and general costs from Q1-2010 to Q1-2011 is due to the fact that as from Q2-2010, costs for the the Brazilian operation of VRL were included in the Company's corporate and general costs after the acquisition of VRL in March 2010. Payroll costs for subsequent quarters in 2011 will drop with the rationalization of the organization in Brazil after the suspension of work at Duas Barras. Professional fees and services were higher in Q1-2011 mainly because of additional work incurred in tax review work, IFRS-related work and additional work required in the 2010 audit due to asset impairment work and audit of tax working papers, and support for geological and legal work. Financial charges and provisions for Q1-2011 are mainly in respect of reversal of over-provision of contingencies and penalties/interest in Brazil.

Other

(\$'000s)	Mar-31 2011	Mar-31 2010	Change	% Change
Other (income)/expenses	137	2,266	(2,129)	(94%)
Foreign exchange (gain)/loss	(154)	121	(275)	(227%)
Interest and other income	(36)	(45)	9	20%
Interest expense	18	-	18	-

The reduction in other expenses in Q1-2011 compared with that recorded in Q1-2010 was due to the fact that in Q1-2010, severance costs and transaction costs were incurred in the VRL acquisition, and share-based compensation costs recorded on issue of share options. The reduction in interest income reflects the lower overall cash balance in Q1-2011 compared with that of Q1-2010.

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES

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

(\$000's)	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash and cash equivalents, end of the period	5,636	15,062
Working capital, end of the period	3,675	7,619
Cash used in operating activities	(1,496)	(2,492)
Cash provided by (used in) investing activities	(256)	16,398
Cash used in financing activities	(891)	-

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Liquidity

As at March 31, 2011, Vaaldiam had working capital of \$3,675,000, compared with \$7,619,000 at March 31, 2010. For Q1-2011, Vaaldiam used cash of \$1,496,000 in operating activities compared with \$2,492,000 in Q1-2010, mainly because in Q1-2010, there were transaction costs and severance payments of \$1,458,000 related to the Vaaldiam acquisition, while in Q1-2011, there are increased operating costs due mainly to the addition of the Brazilian operation. Cash used in Q1-2011 in investing activities is mainly for advancing the Braúna project while cash provided in Q1-2010 was due to the maturity of \$10,057,000 of short-term maturity and a gain of \$7,250,000 received as proceeds from the disposal of the Pukaqaqa project. In Q1-2011, \$891,000 was paid as part of the consideration for increasing Vaaldiam's interest in the Braúna project.

At the date of acquisition of VRL, one of the Brazilian subsidiaries of VRL, Mineração Montes Claros Ltda. ("MMC") was under an extrajudicial recovery plan (the "Plan"), approved by the creditors representing 68% of the debts then owing by MMC. On February 2, 2009, an application was made to the Civil Court in Brazil for the approval of the Plan, which would bind all creditors of MMC. Under the Plan, all action of the creditors against MMC would be stayed and MMC would commit to allocating a portion of the proceeds from the sale of certain major assets as well as from financing to the repayment of such creditors. As at the date of the VRL acquisition, the Plan was still awaiting final court approval. Following the VRL acquisition, Vaaldiam negotiated for the settlement of the amounts due and obtained release from the creditors in respect of all negotiated and paid amounts. As at March 31, 2011, approximately \$6,000, representing less than 1% of the original outstanding amounts, remained unpaid, due mainly to the fact that the creditors did not respond to our repeated contacts for reasons ranging from them being out of business, or had insufficient contact information. On February 22, 2011, MMC, through its counsel in Brazil, had petitioned the courts to have the Plan closed.

Capital Resources

As at March 31, 2011, Vaaldiam had cash of \$5,636,000. Vaaldiam currently has no consistent source of income and no immediate cash flow from its operations until the operations stabilize. 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 June 9, 2011, Vaaldiam has issued and outstanding options as follows:

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
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
384,500	December 3, 2013	\$0.25	96,125
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
4,746,539			\$2,928,553

An additional potential source of capital could be the exercise of warrants. As at June 9, 2011, the Company has issued and outstanding warrants as follows:

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
6,093,769	July 31, 2016	\$6.50	\$39,609,499
6,093,769			\$39,609,499

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following table summarizes Vaaldiam's short- and long-term liquidity and capital resources requirements but excludes planned but not legally committed capital expenditures.

(\$000's)	March 31, 2011			
	Payments Due by Period			
	Within 1 year	1 to 3 years	3 to 5 years	Total
Obligations with respect to Braúna acquisition ⁽¹⁾	1,458	3,935	-	5,393
Operating leases	177	240	88	505
Capital commitments ⁽²⁾	895	-	-	895
Provisions for decommissioning liabilities ⁽³⁾	60	1,174	-	1,234
Total	2,590	5,349	88	8,027

(1) See section on "Braúna" project for obligations related to the increase of the Company's interest from 20% to 51% of the project.

(2) Capital commitments represent purchase obligations for capital expenditures where binding commitments have been entered into. Commitments at March 31, 2011 relate to work at Braúna.

(3) Provisions for decommissioning liabilities represent the undiscounted future payments for the expected costs of environmental rehabilitation.

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.

- As discussed, the Company held a 22.56% ownership interest in Flemish as at March 31, 2011. Certain directors, officers and employees of the Company currently hold 14,155,001 (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 11,000,001 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. Mr. Potvin, as Chairman and CEO of Flemish, received an annual salary of \$250,000 from Flemish. Mr. Jackson is also a director of Flemish and receives no compensation from Flemish. Mr. Potvin and Mr. Jackson hold 980,000 and 480,000 stock options, respectively, at exercise prices of between \$0.50 and \$0.75 per option.
- The Company charges Flemish for office space and other expenses. In 2011, the Company charged Flemish \$6,600 for office space and expenses. No other services are provided and charged for by the Company. As at March 31, 2011, there were no amounts outstanding from Flemish.
- In June 2010, Eric Roblin, a partner with Fogler Rubinoff, LLP, was elected to the board of directors of the Company. As legal counsel for the Company, Mr. Roblin continues to bill the Company for his work as legal counsel. During the three months ended March 31, 2011, the Company was charged approximately \$20,000 for legal services provided by Mr. Roblin and Fogler Rubinoff, LLP.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Responsibility for Consolidated Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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 ("CEO") and the Chief Financial Officer ("CFO"), 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 CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Conclusion regarding ICFR and DC&P

Management has concluded that as of March 31, 2011, the DC&P were effectively designed to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries and joint ventures would be made known to them by others within those entities, particularly during the period in which this report was being prepared. In addition, management has concluded that disclosure controls and procedures were designed effectively to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Management, including the CEO and CFO, has certified that internal controls over financial reporting were effectively designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS.

Reporting Changes in ICFR

The conversion from Canadian GAAP to IFRS has an impact on the procedures used in presenting financial results. Management has evaluated the impact of the conversion on our accounting and financial reporting systems and updated the requisite systems to enable the reporting of the transition to IFRS and for future periods to be reported under IFRS. Other than these, 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

The discussion and analysis of the Company's financial condition and financial performance are based upon accounting policies and estimates included in the unaudited interim condensed consolidated financial statements, which have been prepared in accordance with IFRS. These policies and estimates may be different in certain respects from those reported in the 2010 annual financial statements which were prepared in accordance with the Canadian GAAP. In the interim condensed consolidated financial statements for the quarter ended March 31, 2011, the Company has updated its accounting policies and estimates. See note 3 of the financial statement for a description.

UNCERTAINTIES AND RISK FACTORS

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations may be subject to risks including labour disputes, environmental hazards, safety issues, geological issues, weather conditions, and changing regulatory requirements as examples. Vaaldiam is subject to competitive risks as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for diamonds, gold and 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:

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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. There is also no assurance that the estimated operating and capital expenditures for any project will not be higher than originally estimated.

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 some of the risks involved in the operation of mines and the conduct of exploration programs. Although the Company has secured liability insurance and will, when appropriate, secure property insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs or uninsured losses that could have a material adverse effect upon its financial condition.

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.

In Vaaldiam's alluvial mining operations, there is no material environmental impact as no chemicals are used in the processing of the gravels and recovery of diamonds. At both the Duas Barras and Chapada mines, all of the water required for processing is recovered from water storage ponds where the water used in the processing of gravel is recirculated. No water is drawn directly from natural bodies of water such as a river. Reclamation and restoration consists mainly of the removal of the plant, reclaiming open-pit mining, tailings and water storage areas. During the life of the mine, as the mining operation moves from one area to another, earth excavated during mining is used to back-fill mined out pit and the costs of such absorbed in operational costs. The asset retirement obligations are mainly associated with the dismantling and removal of the equipment and plant, as well as reclaiming open-pit mining, tailings and water storage areas.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

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 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 both the United States dollars and the Brazilian real.

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. 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.

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

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

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

No Dividends

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

Dependence on Key Employees

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

Joint Ventures

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

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

Any of the foregoing may have a material adverse effect on the financial performance 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 companies or may have significant shareholdings in other 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.

Shareholders and prospective investors are advised that additional risk factors are described in the 2010 AIF that can be found on SEDAR at www.sedar.com.

OUTSTANDING SHARE DATA

As at June 9, 2011, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at June 9, 2011	71,633,479
Shares issuable on exercise of options	4,996,539
Shares issuable on exercise of warrants	6,093,769
Fully diluted shares outstanding as at June 9, 2011	82,723,787

MANAGEMENT'S DISCUSSION AND ANALYSIS

All dollar figures are quoted in Canadian dollars unless otherwise specified

GENERAL

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

INDEMNITIES

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

OTHER INFORMATION

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