

Management's Discussion and Analysis

Readers of the following Management's Discussion and Analysis should refer to the Company's audited consolidated financial statements for the years ended December 31, 2006 and 2005 and to the unaudited consolidated interim financial statements for the six months ended June 30, 2007 and 2006 where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following Management's Discussion and Analysis are quoted in Canadian dollars unless otherwise specified. The following Management's Discussion and Analysis is prepared as of August 8, 2007. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Overview

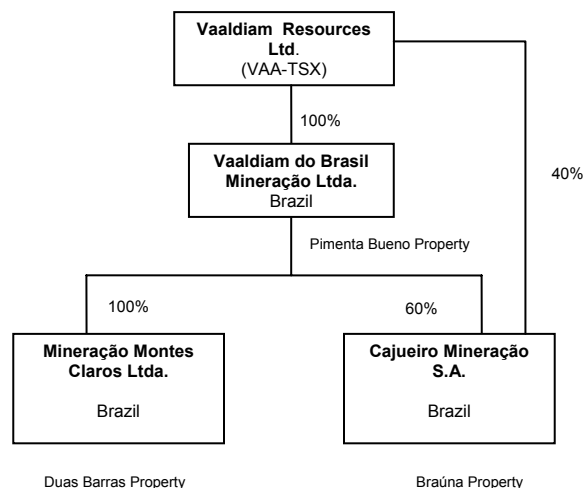
Vaaldiam Resources Ltd. ("Vaaldiam" or the "Company") is a Canadian public company listed on the Toronto Stock Exchange engaged in diamond production, mine development and exploration in Brazil. The Company's vision is to become a significant producer of high quality diamonds and a leader in the diamond exploration industry.

Recent financial, strategic and operational initiatives implemented by Vaaldiam are as follows:

- Reached agreement with Canaccord Capital Corporation ("Canaccord") whereby Canaccord agreed to purchase on an underwritten private placement basis 29,250,000 subscription receipts at \$0.90 per receipt for aggregate gross proceeds to Vaaldiam of \$26,325,000;
- Announced intention to acquire all of the outstanding shares of diamond producer Elkedra Diamonds NL ("Elkedra");
- Announced intention to acquire all of the outstanding shares of diamond explorer Great Western Diamonds Corp. ("Great Western");
- Commenced commissioning of Duas Barras mine with initial gravels processed yielding high grade results;
- Acquired operatorship and 100% ownership of the Pimenta Bueno property on favourable terms; and
- Advanced Braúna 3 kimberlite to bulk sampling stage.

Operations

Operations are conducted through subsidiaries whose relationship to Vaaldiam is reflected below.



A small holding of less than 0.0001% in Vaaldiam do Brasil Mineração (“VBM”) and of less than 0.002 % in Mineração Montes Claros Ltda. (“Montes Claros”) are owned by Vaaldiam executives Mr. José Ricardo Thibes Pisani and Mr. José Fernando Tonoli, respectively, on behalf of Vaaldiam for Canadian legal purposes and exist in order to comply with Brazilian corporate law which requires a minimum of two shareholders.

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

Strategic Initiatives

Elkedra Diamonds NL

On July 3, 2007 Vaaldiam announced its intention to acquire all of the outstanding shares of diamond producer Elkedra as a result of which Vaaldiam would become the dominant South American diamond producer with production from Elkedra’s Chapada mine and Vaaldiam’s Duas Barras mine.

Elkedra owns and operates the Chapada diamond mine in the State of Mato Grosso in Brazil, which is expected to produce 25,000 carats of diamonds in 2007, increasing to 36,000 carats annually in 2008. During the past twelve months, which was the first full year of operation and included a commissioning phase, Elkedra produced 20,131 carats of gem quality diamonds at an average sales value of US\$393 per carat. The Chapada mine is known for producing a number of large high quality diamonds evidenced by the high average size of the diamonds produced at 0.53 carats per stone with several diamonds larger than 20 carats having been recovered to date. The largest diamond recovered to date at the Chapada operation weighed 27.35 carats and was sold for US\$205,125. Elkedra also holds a large area of exploration tenements in the Chapada mining area which has the potential to significantly expand output at the Chapada mine.

Under the terms of the planned scheme of arrangement, each Elkedra shareholder will be entitled to receive 0.52 of a Vaaldiam share per Elkedra share. The board of directors of Elkedra has voted unanimously to support the arrangement and have agreed to recommend the transaction to shareholders pursuant to a merger implementation deed executed with Vaaldiam. Vaaldiam and Elkedra have each agreed to pay a fee equal to 1% of the enterprise value of the other company in the event the merger does not proceed in certain circumstances. Vaaldiam has executed lock-up agreements pursuant to which a number of existing shareholders of Elkedra have agreed to vote an aggregate of 19.9 million Elkedra shares in favour of the arrangement, representing approximately 19% of all outstanding Elkedra shares.

The arrangement is subject to a number of conditions, including the absence of adverse material changes and receipt of all necessary regulatory, shareholder and court approvals. Full details regarding the arrangement will be set out in a scheme booklet to be mailed to shareholders of Elkedra in accordance with applicable securities laws. Elkedra expects to mail the scheme booklet to Elkedra shareholders in August.

Great Western Diamonds Corp.

Also on July 3, 2007, Vaaldiam announced its intention to acquire all of the outstanding shares of diamond exploration company Great Western.

Great Western owns the 830,000 hectare Rondônia diamond project in Brazil, situated to the north-west of Vaaldiam’s 248,000 hectare Pimenta Bueno property. The Rondônia property encompasses eight kimberlite pipes, five of which are known to be diamond-bearing based on the limited sampling completed to date and has significant potential for new kimberlite discoveries. In Canada, Great Western is engaged in a three-year detailed evaluation program of the Candle Lake project, which consists of two large macro diamond-bearing kimberlite pipes located at the

northern end of the Fort á la Corne kimberlite trend, which hosts Shore Gold Inc.'s (TSX-SGF) Star and Orion properties in Saskatchewan. Great Western also is actively exploring for new kimberlite pipes on the Centennial Project located in west-central Saskatchewan and around the known diamond-bearing kimberlite fields of north-central Alberta.

Under the terms of the Great Western offer, each Great Western shareholder will be entitled to receive 0.45 of a Vaaldiam share per Great Western share (the "Offer"). The board of Great Western has approved the Offer and has agreed to support the transaction pursuant to a support agreement executed with Vaaldiam. Lock-up agreements have been executed pursuant to which a number of existing shareholders have irrevocably agreed to tender an aggregate of 43.6 million Great Western shares to the Offer, representing approximately 49% of all outstanding Great Western shares.

The Offer will be subject to a number of conditions, including closing of the Elkedra arrangement in accordance with its terms, absence of adverse material changes, and receipt of all necessary regulatory approvals. As well, the number of Great Western shares to be deposited under the Offer and not withdrawn at the expiry of the Offer shall constitute not less than 66⅔% of the outstanding Great Western shares on a fully-diluted basis. The support agreement provides for the payment by Great Western of a break fee of \$750,000 and an expense reimbursement fee in the amount of \$710,000 payable by Vaaldiam under certain circumstances. Full details regarding the Offer will be included in a formal take-over bid circular to be circulated to the shareholders in accordance with applicable securities laws.

Vaaldiam's controlling shareholder also indirectly holds a control position in Great Western and for this reason the Offer is an insider bid under applicable securities laws. Accordingly, the boards of directors of both Vaaldiam and Great Western established independent committees to review and consider the transactions.

Operations

Duas Barras Mine, Minas Gerais, Brazil

In January 2005, Vaaldiam's subsidiary VBM entered into an option agreement to acquire a 70% interest in the Duas Barras property from Mineração Marly Ltda. ("Marly"). The Duas Barras property is located 150 kilometres north of the town of Diamantina in the state of Minas Gerais. The property lies along five kilometres of the left bank of the upper Jequitinhonha River, which has been a significant diamond producing area since the early 1800s. Under the terms of the January agreement, VBM could exercise its right to acquire the 70% interest by paying Marly US\$150,000 within 10 days of Marly assigning all rights, title and interest in the mineral rights of the property to a joint venture. In addition to the cash payment, VBM would provide the joint venture with the use of mining and processing equipment and advances of working capital with an aggregate value of US\$1,500,000. The agreement also provided VBM with the option to acquire Marly's 30% interest in the joint venture in return for a payment of US\$1,000,000. The agreement provides for a royalty to be paid to the owner of the surface rights of the Duas Barras property in the amount of 6% of gross sales revenues.

During 2005, VBM completed a detailed drilling program on the property to define the alluvial gravels comprising the Duas Barras deposit. A total of 47 percussion drill holes were completed during 2005, totalling 810 metres. In August 2005, Vaaldiam started a bulk sampling program on the Duas Barras property to determine the grade and value of the diamonds found within the alluvial gravels. To complete the bulk sampling program, the Company constructed a pilot processing plant to process a bulk sample. A total of 354 cubic metres of basal gravels were extracted and processed from two bulk sample pits, resulting in the recovery of 222 diamonds with a total weight of 72.57 carats.

Based on the favourable results generated during the drilling and bulk sampling program, VBM exercised its option to acquire the 70% interest in the Duas Barras property on December 22, 2005. On January 31, 2006 this interest was increased to 75% by an advance payment of US\$50,000 to Marly.

Following the acquisition of a 75% interest in the Duas Barras property, VBM completed an additional phase of drilling which was designed to outline an alluvial gravel resource. A total of 16 percussion drill holes totalling 282 metres and 107 rotary drill holes totalling 2,307 metres were completed during this program, providing the basis for estimation of the potential gravel resources available for mining. Based on the delineation drilling and bulk sampling programs completed during 2005 and 2006, the Duas Barras deposit is estimated to contain an indicated resource of 1,843,000 bank cubic metres at an estimated grade of 0.16 carats of diamonds per cubic metre and 0.18 grams of gold per cubic metre, representing an in-situ diamond resource of 295,000 carats of diamonds and 10,780 ounces of gold. An additional inferred resource of approximately 856,000 bank cubic metres has also been estimated at a grade of 0.16 carats of diamonds per cubic metre and 0.18 grams of gold per cubic metre representing an in-situ diamond resource of 137,000 carats of diamonds and 5,010 ounces of gold. The resource estimate is compliant with Canadian National Instrument 43-101 and 2004 CIM Standards for Mineral Resources.

On November 24, 2006, VBM exercised its option to acquire Marly's remaining 25% interest in accordance with the terms of the original agreement. Payment terms of the remaining consideration of US\$1,100,000 are as follows:

- US\$200,000 to be paid within 5 days after Marly's submission of an application to the Departamento Nacional de Produção Mineral ("DNPM") for the assignment of the Duas Barras Mining Licence to VBM's subsidiary Montes Claros (this amount was paid in February 2007);
- US\$150,000 to be paid within 10 days after the issue of a permanent Licence of Operation by the Minas Gerais State Environmental Authority ("FEAM");
- US\$400,000 to be paid within 10 days after the DNPM's approval and registration of the Duas Barras Mining Licence in the name of Montes Claros and the issue of a permanent Licence of Operation by FEAM; and
- US\$350,000 to be paid within 10 days after the sale of the first diamond production from the Duas Barras deposit.

On commencement of production, royalties will be payable to the Brazilian government of 0.2% of the gross revenue from the sale of diamonds and 1% of the gross revenue from the sale of gold.

Contract mining operations at the Duas Barras mine have been underway since February 2007, utilizing three excavators and a fleet of seven dump trucks each with a hauling capacity of 15 cubic metres (27 tonnes).

Improvements to the infrastructure supporting the Duas Barras mine have also been completed, including the construction of additional accommodation for mine and construction staff, a new administration building and expanded garage facilities. Hydrological testing is also underway to measure groundwater flow in the proposed mining areas and environmental baseline studies have been completed in accordance with the environmental impact study authorized by the regulatory authorities in Brazil.

In addition, the DNPM has granted VBM, on behalf of Marly, a Mining Licence for the area of the alluvial gravel deposit, as outlined by VBM's drilling program. The Licence encompasses 170.89 hectares along the left bank of the Jequitinhonha River. A temporary Licence of Operation was

also granted by FEAM to VBM, on behalf of Marly, in February 2007. The final Licence of Operation is to be granted subsequent to inspection after the mine construction completion.

Construction of the Company's diamond recovery plant was completed in April, 2007 and the commissioning phase has started with commercial production expected to commence in August, 2007. This new plant has been designed to process 315,000 cubic metres of gravel annually, to produce an estimated 50,000 carats of diamonds and approximately 1,825 ounces of gold per year.

On August 7, 2007, Vaaldiam announced that commissioning the Duas Barras mine indicated the presence of high grade gravels in the deposit. Commissioning of Vaaldiam's new Duas Barras processing plant to that date resulted in the recovery of 10,289 diamonds with a total weight of 2,027.09 carats, from 6,661.05 bank cubic metres of gravel, resulting in a recovered diamond grade of 0.30 carats per bank cubic metre. The largest diamond recovered to date during the commissioning phase weighed 6.25 carats. The average size of the diamonds recovered is 0.20 carats per stone, which confirms that the recovery process is operating efficiently as even small diamonds are being recovered.

During the six months ended June 30, 2007, Vaaldiam expended \$2,598,077 relating to the Duas Barras mine bringing total expenditures including mine capital, exploration expenditures and property acquisition costs to June 30, 2007 to \$5,998,379.

Braúna Property, Bahia, Brazil

In August 2005, the Company acquired a 60% interest in the Braúna property from Majescor Resources Inc. ("Majescor"). Vaaldiam acquired its initial interest in the property under the terms of a purchase agreement with Majescor, whereby Vaaldiam paid De Beers Brasil Ltda. ("De Beers"), a subsidiary of De Beers Consolidated Mines Limited, the sum of \$300,000 on behalf of Majescor, which represented the balance owed by Majescor under the terms of a purchase agreement between De Beers and Majescor involving the Braúna property. In addition, Vaaldiam issued a total of 150,000 common shares to Majescor valued at time of issue at \$111,000.

The Braúna property is comprised of three exploration concessions which encompass 18 kimberlite occurrences consisting of four pipes associated with a kimberlite dike system which has been traced over a strike length of approximately 20 kilometres. De Beers originally discovered the dike system and three of the kimberlite pipes (Braúna 3, Braúna 4, and Braúna 7) in 1992 as a result of a reconnaissance sampling program exploration. Subsequent surface sampling of the kimberlite occurrences by De Beers determined that the kimberlite occurrences were diamond-bearing.

The joint venture between Vaaldiam (60%) and Majescor (40%) commenced exploration on the Braúna property in October 2005 through the subsequently formed joint venture company Cajueiro Mineração S.A. ("Cajueiro"). A detailed ground magnetic survey was completed during Q4-2005, which resulted in the discovery of the Braúna 16 pipe, located just 400 metres to the northeast of the 1.0 hectare Braúna 4 pipe. An initial phase of drilling was then completed during 2006 which focused on the delineation of the Braúna 3 and Braúna 7 pipes. A total of 21 drill holes totalling 2,316 metres tested the Braúna 3 pipe to a depth of approximately 200 metres. Sixteen drill holes totalling 1,847 metres were completed at the Braúna 7 pipe, testing the pipe to a depth of 154 metres. Four drill holes totalling 418 metres were also completed at the Braúna 4 pipe, and an additional two holes were completed at the Braúna 16 pipe totalling 170 metres.

In November 2006, Vaaldiam and partner Majescor commenced a mini-bulk sampling program to confirm the presence of commercial-sized diamonds in the larger pipes on the Braúna property. A total of 100 tonnes of kimberlite was extracted from two pipes, namely the 1.7 hectare Braúna 3 pipe and the 1.0 hectare Braúna 7 pipe. The mini-bulk samples were collected through a series of vertical shafts which were excavated through the 3 to 5 metre thick calcrete cover to extract

saprolitic kimberlite for macro diamond analysis. The extraction of the kimberlite samples from the shafts allowed the partners to maximize the kimberlite sample particle size which helped minimize diamond breakage. To provide for an efficient turnaround of the mini-bulk sample results, Vaaldiam constructed a small dense media plant which was utilized to process the mini-bulk samples extracted from the Braúna pipes for a fee charged to the joint venture. Vaaldiam's diamond recovery plant consists of a crushing and feed circuit, a 300 kilogram per hour dense media module and a secure diamond recovery circuit. The recovery plant is designed as a "hands-off" unit, to ensure the security of the sample process. The plant is located within Vaaldiam's facilities in the town of Nordestina, which is situated less than five kilometres from the main cluster of pipes.

By mid-January 2007, 58 diamonds with a total weight of 7.74 carats had been recovered from 37.69 dry tonnes of kimberlite extracted from the southern lobe of the 1.7 hectare Braúna 3 pipe. The largest stones recovered weigh 1.13, 0.56, 0.49, 0.46 and 0.43 carats. The results to that date indicate a diamond grade of 20.54 carats per hundred tonnes for the southern lobe of the Braúna 3 kimberlite pipe.

Mini-bulk sampling was also completed on a dike-like body comprising the central portion of the Braúna 3 pipe, where the kimberlite pipe narrows to a width of approximately 20 metres. The kimberlite comprising the dike system, which forms a link between the northern and southern lobes of the pipe, appears to be a large-stage intrusion representing 15% of the entire Braúna 3 kimberlite, based on drilling completed to date. A total of 35.8 dry tonnes of kimberlite was extracted and processed from this central zone, resulting in the recovery of 32 diamonds with a total weight of 2.15 carats, indicating a recovered grade of 6.00 cpht. The average stone size recovered was 0.07 carats. The five largest stones recovered in the mini-bulk sample weighed 0.59, 0.27, 0.09, 0.09 and 0.08 carats.

On February 14, 2007, Vaaldiam signed a non-binding Letter of Intent with Majescor to acquire Majescor's 40% interest in the Braúna kimberlite property. On March 1, 2007 Vaaldiam and Majescor completed an agreement whereby Vaaldiam acquired Majescor's 40% interest in the Braúna property in return for:

- \$2,000,000 cash payment;
- \$1,500,000 paid in common shares of Vaaldiam (based on a 20-day simple average stock price at the time of closing) which amounted to 1,733,102 common shares; and
- A royalty of 1% of the gross sales revenue from diamond production from the Braúna property.

On May 31, 2007, Vaaldiam announced plans to extract a 5,000 tonne bulk sample from the Braúna kimberlite pipes in an aggressive development program designed to evaluate the economics of the diamond-bearing Braúna kimberlites through the recovery of a parcel of diamonds for valuation purposes. The proposed bulk sampling program will focus on the 1.85 hectare Braúna 3 pipe, with the extraction of a 3,000 tonne bulk sample collected from a series of surface trenches excavated across the width of the pipe. Smaller 1,000 tonne bulk samples will also be excavated from each of the one hectare Braúna 4 and 7 pipes, which are situated within 1.5 kilometres of the Braúna 3 kimberlite.

During the six months ended June 30, 2007, the Company's Braúna property exploration expenditures were \$642,865 net of sample processing cost recovery. To June 30, 2007, Vaaldiam's total carrying cost relating to the Braúna property amounted to \$7,967,463, comprising of Vaaldiam's exploration expenses amounting to \$2,015,799 and Vaaldiam's acquisition costs of \$5,951,664 (including cost of future tax liability of \$1,883,826) to acquire 100% of the property.

Pimenta Bueno Property, Rondônia, Brazil

Rio Tinto Desenvolvimento Minerais Ltda. (“Rio Tinto”) assumed the position of operator of the Pimenta Bueno property from Vaaldiam in June 2005 following the exercise of an option that allowed Rio Tinto to earn a 51% interest in the property in accordance with the terms of an agreement signed with Vaaldiam in November 2003. Vaaldiam granted Rio Tinto this option in return for all of Rio Tinto’s exploration data, valued at approximately US\$4,000,000. The agreement provided Rio Tinto with an option to earn a 51% interest in either or both of the Northern and Southern Blocks comprising the property by spending a total of US\$12,500,000 on exploration over a three year period, US\$5,000,000 on the Southern Block and US\$7,500,000 on the Northern Block. The Southern Block is comprised of approximately 207,085 hectares while the Northern Block covers approximately 40,000 hectares. After exercising their option, Rio Tinto expended approximately US\$6,050,000 for its own account on exploration of the Southern Block of the property to April, 2007, as a result of which Rio Tinto acquired 51% of the Southern Block with Vaaldiam owning 49%. Vaaldiam’s ownership of the Northern Block remains at 100%. Substantially all of Rio Tinto’s exploration expenditures were on the Southern Block.

The agreement also provided Rio Tinto with the opportunity to increase its interest to 70% in either or both of the Northern or Southern Blocks by completing a feasibility study on any kimberlite deposit found. The agreement specified that the feasibility study would have to be sufficiently comprehensive to enable the Company to seek bank financing for its remaining 30% interest in the joint venture.

When Rio Tinto assumed the position of operator of the project in June 2005, Rio Tinto continued with the delineation drilling program started by Vaaldiam earlier in the year. During 2006, Rio Tinto continued to advance the development of the Pimenta Bueno property through an aggressive exploration program consisting of drilling and mini-bulk sampling. At December 31, 2006, Rio Tinto had completed 8,925.15 metres of core drilling, representing 68 core holes, delineating 6 kimberlite pipes and one kimberlite sill. In addition, Rio Tinto tested 7 magnetic and 3 electromagnetic anomalies with drilling, resulting in the discovery of 5 kimberlite pipes, one kimberlite dike and one sill. Since January 2005, Vaaldiam and Rio Tinto have together completed 10,093.55 metres of drilling in 78 core holes of which 54 holes tested kimberlite.

Seven new kimberlites were discovered during 2006, increasing the total number of kimberlite occurrences to 41, including 38 kimberlite pipes ranging in size from one hectare up to 18 hectares in surface area. Two kimberlite dikes and one kimberlite sill system have also been discovered as a result of the joint venture’s exploration program. Microdiamond analysis indicates that 19 of the kimberlites are diamond-bearing, and mini-bulk sampling of four kimberlite pipes by Rio Tinto has resulted in the recovery of commercial-sized diamonds.

The following table presents a list of the kimberlites tested by drilling by both Vaaldiam and Rio Tinto during 2005 and 2006:

Pipe Name	No. of Holes	Metres Drilled	Surface Area of Pipe (in Hectares)
Cosmos 1	5	1,148	2.3
Cosmos 3	7	1,530	12.0
Cosmos 4	5	937	5.0
Clara	2	150	Dike
Pepper 1	3	456	2.0
Pepper 3	6	854	17.0
Pepper 4	7	891	7.5
Pepper 6	3	330	Sill
Pepper 13	3	282	1.5
Pepper 18	2	379	20 (Sill)
Tumeleiro 3	3	180	3 (Sill)
Tumeleiro 9	2	247	2.0
Tumeleiro 10	1	167	3.0

Tumeleiro 11	2	286	Dike
Tumeleiro 12	1	154	2.0
Tumeleiro 13	1	200	3.0
Arara 3	1	134	2.0
Total	54	8,325	

During November 2005, Rio Tinto mobilized a reverse circulation drilling unit to the property to commence a mini-bulk sampling program designed to recover 50 tonne mini-bulk samples of kimberlite from each of four pipes that had been selected for sampling. A total of 38 reverse circulation drill holes, utilizing a 5¹/₂ inch tricone drill bit, were completed totalling 7,436 metres of drilling, which resulted in the recovery of 164 tonnes of dry kimberlite from the four pipes. The following table summarizes the results of the reverse circulation drilling completed by Rio Tinto as part of their mini-bulk sampling program:

Pipe	No. of Holes	Metres Drilled	Sample Weight (Dry Tonnes)	No. of Diamonds Recovered (>0.85 mm)	Total Diamond Weight (carats)	Estimated Recovery (%)
Cosmos 1	13	2,576	62.2	117	2.45	75%
Cosmos 3	12	2,463	56.5	16	0.28	71%
Pepper 4	10	1,896	32.6	23	0.42	71%
Pepper 13	3	501	12.7	1	0.05	82%
Total	38	7,436	164	157	3.20	75%

Granulometry tests of the kimberlite chips recovered by Rio Tinto during the reverse circulation drilling indicates that 55% of the kimberlite was reduced to a particle size of less than 2 mm. Visual inspection of the diamonds by Vaaldiam geologists, combined with an analysis of the diamond distribution, suggests that diamond breakage may have occurred during the drilling and sample collection stage. Vaaldiam intends to complete a diamond breakage study of the diamonds recovered during the mini-bulk sampling program, to assess the impact that any potential diamond breakage might have had on the sample results and the diamond distribution analysis. This study is expected to be completed in Antwerp, Belgium during 2007. Additional mini-bulk sampling from the surface of the Cosmos 1 pipe was recommended by Vaaldiam to confirm the diamond distribution within the Cosmos 1 pipe and to provide a comparison of the diamond recoveries from surface sampling to those obtained from reverse circulation drilling.

In June 2007, Vaaldiam restructured its 2005 agreement with Rio Tinto whereby Rio Tinto transferred operatorship and 100% ownership of the Southern Block of the Pimenta Bueno diamond project to Vaaldiam. Rio Tinto retained an option to back-in to a 60% interest in any kimberlite pipe that meets Rio Tinto's development criteria. In the event Rio Tinto decide to develop one of these kimberlite pipes they would complete and fully fund a feasibility study. Should the feasibility study meet their criteria and Rio Tinto decide to develop a mine Rio Tinto would fully fund the construction of the mine and Vaaldiam would retain a 40% equity interest in cash flow from the mine after repayment of Vaaldiam's share of construction funding. In such a case, Vaaldiam would not need to raise development equity funding.

Rio Tinto's back in rights would be triggered when Vaaldiam recovers at least 200 carats of commercial sized diamonds from a bulk sample on any kimberlite in the Southern Block. Should Rio Tinto progress through to mine construction, it would provide Vaaldiam's 40% share of construction costs which would be recovered by Rio Tinto from future cash flows on a non-recourse to Vaaldiam basis. Should Rio Tinto not exercise its option, Vaaldiam would continue to own 100% of the relevant kimberlite. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam. Vaaldiam continues to retain 100% ownership of the 40,000 hectare Northern Block of the Pimenta Bueno property.

Vaaldiam has mobilized a highly experienced exploration team to the property whose focus will be a mini-bulk sampling program on the Cosmos 1 and 2 diamond bearing kimberlites. Vaaldiam will sample the Pimenta Bueno pipes using the same bulk sampling methods that were

successfully used on the Braúna kimberlites. This method involves the collection of 250 tonnes of kimberlite from vertical shafts excavated to a depth of 30 metres. The excavation of samples in this manner provides the maximum sample coarseness in order to minimize diamond breakage. This form of excavation is also a more cost effective method of bulk sampling than using a large diameter drill to recover bulk sample material.

In addition, Vaaldiam will immediately explore three kimberlite indicator mineral anomalies in the area surrounding the Cosmos kimberlites which do not appear to be associated with any know pipes. Very fresh kimberlite indicator minerals were recovered in three separate areas suggesting the nearby presence of additional kimberlites.

Vaaldiam's share of expenditure on the Pimenta Bueno property during the six months ended June 30, 2007 was \$156,826 bringing a total expenditure by the Company to June 30, 2007 to \$3,932,520.

Aroeira Property, Bahia, Brazil

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

In November 2006, Vaaldiam acquired ownership of De Beers exploration dataset for the Aroeira area. The Aroeira dataset covers an area of approximately 165,000 hectares and includes exploration results from 645 samples. Vaaldiam acquired this dataset as a result of an agreement with De Beers to purchase De Beers' exploration dataset for the Traira diamond district in northern Mato Grosso state, together with a claim owned by De Beers in the Traira area covered by the dataset. As a result of environmental restrictions, De Beers were unable to transfer ownership of the Traira claim to Vaaldiam. Therefore, in November 2006, De Beers offered and Vaaldiam accepted, the dataset for the Aroeira diamond district in the state of Bahia, to offset the inability to transfer ownership of the Traira claim to Vaaldiam. Vaaldiam has conducted no material exploration within the Aroeira district to date and the amount of \$111,710 reflected as the carrying value of the asset as at June 30, 2007 relates to the cost of acquiring the dataset from De Beers.

Coronation Gulf Property, Nunavut, Canada

In July 2006, Vaaldiam reached an agreement with Ashton Mining of Canada Inc. ("Ashton") a wholly-owned subsidiary of Stornoway Diamond Corp. ("Stornoway") which provided Vaaldiam with an exclusive option to acquire a 40% joint venture interest in Stornoway's Coronation Gulf Property. The Coronation Gulf Property is comprised of 88 mineral claims encompassing 91,400 hectares in the Coronation Gulf area of Nunavut, approximately 525 kilometres north of the city of Yellowknife, Northwest Territories. Vaaldiam could have earned its 40% interest in the Coronation Gulf Property by spending a total \$3.0 million on exploration by December 31, 2008, of which \$1.0 million must have been spent by December 31, 2006. In addition, the agreement required, subject to regulatory approval, that Vaaldiam would issue Ashton a total of 195,000 common shares over the three-year term of the options, 65,000 shares not later than April 1, 2007 (deferred to May 1, 2007) and 130,000 shares not later than April 1, 2008. No shares were issued under the option agreement. Vaaldiam was the operator for the 2006 program with Ashton retaining the right of operatorship after 2006.

Prior exploration including till sampling, prospecting, drilling and airborne and ground geophysical surveys by Ashton resulted in the discovery of 11 kimberlites on the Coronation Gulf Property

between 1999 and 2005. Eight of these have proven to be diamondiferous. In addition, a number of high priority airborne geophysical targets, unsourced kimberlite float and diamond indicator mineral dispersion trains remain to be evaluated on the properties.

The three hectare Artemisia pipe is the largest kimberlite pipe found to date on the Coronation Gulf Property. In August 2006, Vaaldiam collected a 100 tonne surface sample from the Artemisia pipe to confirm the presence of commercial sized diamonds and to determine whether the size distribution and quantity of the diamonds would be sufficient to justify a larger bulk sampling program during 2007. Processing of this 100 tonne mini-bulk sample commenced in December 2006 at SGS Lakefield Research Limited and results were received in April 2007. The mini-bulk sample represents the largest volume of kimberlite extracted from the Artemisia pipe. In addition to the 100 tonne mini-bulk sample collected from the Artemisia pipe, Vaaldiam also collected a one tonne sample from the Perseus kimberlite, located 37 kilometres south of the Artemisia pipe, to assess the diamond distribution within this kimberlite dike system. This sample was also processed at SGS Lakefield Research Limited following the completion of the processing of the Artemisia sample.

In late April 2007, Vaaldiam received the results from the Artemisia kimberlite sampling which were as follows. A total of 562 diamonds >0.85 mm were recovered from the Artemisia pipe weighing a total of 13.03 carats, resulting in a calculated recovered grade of 14.77 carats per hundred tonnes on a dry tonnes basis. The Perseus sample yielded no diamonds >0.85 mm.

On April 30, 2007, Vaaldiam notified Ashton that, based on the results to date, the Company would not be undertaking further exploration of the property.

To March 31, 2007, Vaaldiam had spent \$1,514,753 in relation to the exploration of the Coronation Gulf Property, which amount was written off effective March 31, 2007.

In the quarter ended June 30, 2007, a further amount of \$125,272 was expended on the property, which amount was also written off giving rise to a total of \$1,640,025 being written off in relation to this property.

Hotish Mountain Property, Quebec, Canada

In April 2005, Vaaldiam negotiated an option agreement with Dios Exploration Inc. ("Dios") whereby the Company could have earned a 51% interest in the Hotish Mountain property by incurring exploration expenditures of \$2,000,000 as follows:

Deadline	Expenditures
On or before April 12, 2006	\$300,000 (completed)
On or before April 12, 2007	\$700,000
On or before April 12, 2008	\$1,000,000

In addition, Vaaldiam was required to issue a total of 100,000 common shares to Dios as follows:

Issue Date	Number of Shares
Forthwith on receiving Toronto Stock Exchange approval	25,000 (issued)
April 12, 2006	25,000 (not issued)
April 12, 2007	50,000 (not issued)

The Hotish Mountain property is situated in the Otish Mountain district of northern Quebec. The property covers approximately 50,000 hectares, and is situated approximately 100 kilometres south of the diamondiferous Renard kimberlite cluster.

In August and November 2005, an indicator sampling program was completed on the Hotish Mountain property involving the collection of 150 glacial till samples to determine the source of indicator mineral anomalies. Dios granted Vaaldiam a 30 day extension of the anniversary date

of the option agreement to provide the Company with an opportunity to review the sampling results to date, and make a decision regarding the continuation of the option. In May 2006, Vaaldiam notified Dios that, based on results to date, the Company would not be undertaking further exploration of the property.

To end March 2006, \$439,160 had been spent on the exploration of the Hotish property, in addition to which \$14,500 of option expenditures had been made for total expenditures of \$453,660, which amount was written off effective March 31, 2006. In April 2006 an additional \$2,683 was expended on the Hotish property, which amount was also written off giving rise to a total of \$456,343 being written off in 2006 in relation to this property.

Haute Kotto Property, Central African Republic

In March 2004, the Company was granted a 2,000 square kilometres reconnaissance permit in the Haute Kotto District of southeastern Central African Republic. The area is prospective for both kimberlite and alluvial diamond deposits. In February 2005, the Company was granted an exploration permit covering an area of 682.1 square kilometres within the area of the reconnaissance permit. The exploration permit is valid for a period of three years and is subject to a minimum expenditure on exploration of approximately \$35,000 per year.

Following a review of the Haute Kotto property and the alternative uses for the cash which would otherwise be required to be spent in the future on the property, Vaaldiam decided that its cash resources should be concentrated on the Company's more advanced projects. While the Company will endeavour to maintain the property with a view to divestiture or joint venture, it was considered prudent to write off the expenditures to December 31, 2006 associated with the property in the amount of \$709,335. During the six months ended June 30, 2007, \$131,805 was incurred in maintaining the Haute Kotto property which amount was expensed.

Selected Financial Information

Six Months Ended June 30	2007	2006
Net sales	-	-
Net loss - total	\$ 4,147,487	\$ 2,397,801
- per share	\$ 0.05	\$ 0.03
Cash and cash equivalents	\$ 2,669,799	\$ 15,313,939
Restricted cash	\$ 184,606	\$ 1,821,183
Working capital	\$ 2,427,721	\$16,967,803
Total assets	\$ 24,680,822	\$ 24,766,918
Total long-term financial liabilities	\$1,880,714	-
Shareholders' equity	\$ 22,131,075	\$ 24,300,524
Cash dividends per share	-	-

Summary of Quarterly Results

Quarters Ended	Net Sales	Income (Loss) Total	Per Share
June 30, 2007	-	\$ (751,769)	\$ (0.01)
March 31, 2007	-	(3,395,718)	(0.04)
December 31, 2006	-	(926,003)	(0.014)
September 30, 2006	-	(193,701)	(0.00)
June 30, 2006	-	(382,991)	(0.00)
March 31, 2006	-	(2,014,811)	(0.03)
December 31, 2005	-	75,414	0.00
September 30, 2005	-	(357,617)	(0.00)

During the six months ended June 30, 2007, a loss of \$4,147,487 or \$0.05 per share was recorded compared to a loss of \$2,397,801 or \$0.03 per share during the corresponding period of the prior year. The increased loss of \$1,749,686 arose primarily from an increase in stock based compensation expense of \$217,860, an increase in corporate and general expenses of \$200,505, increased property write-offs of \$1,183,682, increased amortization of \$45,196 less decreased interest income of \$109,129. The increased stock based compensation expense arose from an issuance of options in the first quarter of 2007 while the increase in corporate and general expenses and amortization expenses arose primarily from a higher level of activity in the current year as compared to the corresponding period in the previous year.

Seasonality has relatively little effect on the quarterly financial results of the Company, however, in that renunciation of Canadian Exploration Expense to flow-through share investors incurred or to be incurred, typically takes place in the last quarter of each year, a related income tax recovery has been reflected during the last quarter of 2006 and 2005.

Private Placement

On July 19, 2007, Vaaldiam announced that it had entered into an underwriting agreement with Canaccord Capital Corporation (the "Underwriter"), which agreed to purchase, on an underwritten private placement basis, 29,500,000 Subscription Receipts of the Company at a price of \$0.90 per subscription Receipt for aggregate gross proceeds to Vaaldiam of \$26,550,000 (the "Offering"). The terms of the underwriting agreement were subsequently revised on August 8, 2007 to reflect an offering of 29,250,000 Subscription Receipts of \$26,325,000.

Each Subscription Receipt shall be deemed to be exchanged, without payment of any additional consideration and subject to adjustment, for one (1) unit of Vaaldiam (each a "Unit") on the earlier of (i) the Escrow Release Time (as defined below); and (ii) the Final Escrow deadline (as defined below), in respect of the Subscription Receipts which remain outstanding after giving effect to the return of the Escrowed Funds (as herein defined) provided for below. Each Unit will be comprised of one common share of the Company (each an "Underlying Share") and one-half of one common share purchase warrant (each whole warrant, an "Underlying Warrant"). Each Underlying Warrant shall entitle the holder thereof to subscribe for one additional common share of the Company (a "Warrant Share") at an exercise price of \$1.20 per Warrant Share at any time prior to the day that is 24 months from the closing date of the Offering.

Vaaldiam plans to use the net proceeds of the Offering to advance Vaaldiam's projects, including those proposed to be acquired pursuant to the planned acquisition by the Company of all of the outstanding shares of (i) Elkedra and (ii) Great Western and for general corporate working capital purposes.

Upon the closing of the Offering, 25% of the gross proceeds of the Offering shall be delivered to Vaaldiam, with the remaining 75% (the "Escrow Ratio") of the gross proceeds of the Offering to be deposited in escrow (the "Escrowed Funds").

The Escrowed Funds will be released from escrow to Vaaldiam (after deducting the applicable Underwriters' commission) immediately following the closing of the Elkedra Transaction ("the Escrow Release Time"), provided that the following conditions (the "Escrow Release Conditions") have been satisfied before the Escrow Release Time:

- a) all conditions precedent to the closing of the Elkedra Transaction shall have been satisfied or waived to the satisfaction of the Underwriter, acting reasonably; and
- b) to the extent required in accordance with the rules of the Toronto Stock Exchange (the "TSX"), the Elkedra Transaction and the issuance of the Units pursuant to the Offering, shall have been approved by the shareholders of Vaaldiam.

In the event that either (i) the Escrow Release Conditions are not satisfied by the Escrow Release Time, or (ii) the closing of the Elkedra Transaction does not occur on or before 110 days after the closing date (the "Final Escrow Deadline"), the Escrowed Funds, plus any accrued interest earned thereon, would be returned *pro rata* to each holder of the Subscription Receipts in exchange for that number of Subscription Receipts held by such holder multiplied by the Escrow Ratio.

The Offering is scheduled to close on or about August 15, 2007 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the TSX.

Liquidity

As at June 30, 2007, the Company had working capital of \$2,427,721, the unrestricted cash and cash equivalent portions of which was \$2,669,799. Cash equivalents relate to funds kept in a Scotia Premium T-Bill Fund, which fund is administered by Scotia Securities. The Scotia Premium T-Bill Fund invests primarily in Government of Canada treasury bills and other short-term debt instruments guaranteed by the Government of Canada.

As at June 30, 2007, restricted cash amounted to \$184,606, which related to unspent flow-through share issue proceeds and which are required to be spent on eligible Canadian Exploration Expenditures prior to December 31, 2007. Unspent flow-through share issue proceeds are kept in separate bank accounts on which cheques relating to eligible Canadian Exploration Expenditures are drawn.

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

During March 2007 the Corporation participated in a private placement of units of Great Western as a result of which Vaaldiam acquired 1,111,112 common shares and 555,556 warrants of Great Western at \$0.45 per unit for a total outlay of \$500,000.

Vaaldiam has no debt nor lines of credit.

Capital Resources

As at August 8, 2007, Vaaldiam had cash and cash equivalents of approximately \$ 1.67 million in addition to which restricted cash amounted to \$ 0.19 million.

A potential source of additional capital would be the exercise of options. As August 8, 2007, the Company had issued the following unexercised options.

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
1,330,000	November 20, 2008	\$ 0.50	\$ 665,000
100,000	February 20, 2009	0.50	50,000
525,000	September 20, 2009	0.45	236,250
40,000	December 14, 2009	0.40	16,000
55,000	May 10, 2010	0.50	27,500

100,000	August 4, 2010	0.85	85,000
2,105,000	January 16, 2011	0.75	1,578,750
75,000	April 18, 2011	1.37	102,750
50,000	June 9, 2011	0.97	48,500
2,675,000	January 24, 2012	0.85	2,273,750
7,055,000			\$ 5,083,500

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

Off Balance Sheet Arrangements

Under the terms of the Company's office lease, the Company is committed to pay a minimum annual amount of approximately \$103,000 in total over the period July 1, 2007 to November 30, 2009, which amount includes rent, operating costs and realty taxes.

Transactions with Related Parties

In May 2006, a loan bearing interest at the Canadian prime rate plus 3%, repayable on demand in the amount of \$40,000, was granted to an officer and director and was still outstanding on August 8, 2007.

During the six months ended June 30, 2007 an amount of approximately \$20,419 was paid to a company owned by a significant shareholder for accounting and administrative services provided to the Company's Brazilian subsidiaries during the first six months of 2007.

On March 28, 2007, the Company acquired 1,111,112 units of Great Western at \$0.45 per unit for a total investment of \$500,000. Each unit of Great Western acquired consisted of one common share and one half of a common share purchase warrant. Each whole warrant is exercisable into one common share of Great Western at \$0.60 per common share at any time up to March 30, 2009. Santa Elina Mines Corporation, which is Vaaldiam's largest shareholder, is believed to be a major shareholder of Great Western.

Proposed Transactions

On a continuous basis, the Company reviews additional exploration properties with a view to their acquisition for exploration and development and other diamond companies with the view to merger or acquisition. From time to time the Company pursues opportunities to restructure its ownership in its existing properties where this is deemed advantageous. Vaaldiam is currently pursuing the acquisition of Elkedra and Great Western.

Management Report

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2006 the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance in ensuring that information relating to the Company and its consolidated subsidiaries which is required to be disclosed in reports filed under relevant securities legislation is recorded, summarized and reported within the time periods specified by such legislation, and that the information is accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Assessment of Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the consolidated financial statements.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have reviewed the internal control procedures in existence as of December 31, 2006, and concluded that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). During the most recent interim period, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Critical Accounting Estimates

Under the accounting rules used by Vaaldiam, the fair value of stock based compensation (option grants) is expensed for income statement purposes. The determination of fair value of options granted is generally provided by the Black-Scholes formula. Some of the parameters used in this formula are highly subjective, in particular the assumption of future price volatility. In addition, using the Black-Scholes model assumes that a satisfactory active market for the options exists whereas ownership of the options granted by Vaaldiam cannot be transferred under the rules of the Toronto Stock Exchange and the Company's Stock Option Plan. During the six months ended June 30, 2007, \$1,495,325 was expensed as the cost of options issued under the Company's Stock Option Plan. The amount of \$1,495,325 expensed or debited on the Consolidated Statement of Loss and Deficit was offset by a corresponding credit of the same amount to the Stock Option Account included in Shareholder's Equity, as a result of which, on a net basis, the expensing of stock options had no effect on the overall Shareholder's Equity of the Company.

An additional critical accounting estimate related to the assumed recoverability of the carrying value of exploration properties which is dependent on the assumed discovery of economically recoverable reserves, the assumed ability of the Company to obtain financing or other means to complete development of the properties and assumed future profitable production or proceeds from the disposition of the properties. As at June 30, 2007, exploration properties were reflected in the Company's balance sheet at \$18,010,072.

Changes in Accounting Policies Including Initial Adoption

Vaaldiam's accounts are stated using Canadian GAAP. During the six months ended June 30, 2007, the Company's accounting policies have not changed from those prevailing during 2006 and no future changes are contemplated except as may be required to conform with future changes in Canadian GAAP.

Financial Instruments and Other Instruments

An amount of \$1,769,009 of the Company's cash assets as at June 30, 2007 were invested in a Scotiabank, mainly Government of Canada, Treasury Bills Account which is considered to be a low risk interest bearing account.

Disclosure of Outstanding Share Data

As at August 8, 2007, the following were the undiluted and fully diluted common shares outstanding:

Undiluted common shares outstanding as at December 31, 2006	81,449,352
Shares issued to acquire 40% of Cajueiro (Braúna property)	1,733,102
Shares issued on exercise of options	18,750
Undiluted common shares outstanding as at August 8, 2007	83,201,204
Shares issuable on exercise of options as at August 8, 2007	7,055,000
Fully diluted shares outstanding as at August 8, 2007	90,256,204

Corporate and General Expenses

The following is a comparison of the unaudited Corporate and General Expenses incurred during the six months ended June 30, 2007 compared to the corresponding period of the prior year.

Six Months Ended June 30	2007	2006	(Increase) Decrease
Administration	\$ 186,624	\$ 216,309	\$ 29,685
Investor Relations	138,044	143,763	5,719
Directors' Fees	32,400	27,000	(5,400)
Group Health Insurance	29,700	18,670	(11,030)
Office Rent	51,470	30,618	(20,852)
Insurance	18,665	11,773	(6,892)
Stationery and Printing	6,805	9,971	3,166
Telephone and Fax	14,842	12,154	(2,688)
Audit Related Fees	60,193	27,080	(33,113)
General Travel	2,999	6,651	3,652
Business Development	316,794	-	(316,794)
Project Development	-	6,688	6,688
Sundry Expenses	26,674	26,854	180
General Legal Fees	14,889	20,806	5,917
Filing Fees	23,030	31,704	8,674
Annual Meeting Expenses	70,775	53,107	(17,668)
TSX Listing Expenses	-	120,322	120,322
Registrar's Fees	3,940	10,958	7,018
Tax on Unspent Flow Through Shares	7,950	30,861	22,911
	\$ 1,005,794	\$ 805,289	\$ (200,505)

During the six months ended June 30, 2007 Corporate and General Expenses were \$1,005,794 an increase of \$200,505 over the prior year's level of \$805,289. In general, the increase in Corporate and General Expenses in 2007 reflects a higher level of corporate activity compared to the prior year offset in part by the absence of TSX listing expenses during the same period.

Forward-Looking Statements

Certain statements contained herein are forward-looking and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. These opinions and estimates include those estimates and opinions that relate to all the geological, mining and commodity price and marketing parameters used by management.

In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. Readers are therefore cautioned not to place undue reliance on any forward-looking statement.