

Management's Discussion and Analysis

Readers of the following Management's Discussion and Analysis should refer to the Company's audited comparative consolidated financial statements for the year ended December 31, 2007 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 March 27, 2008. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

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.

Overview

Vaaldiam Resources Ltd. ("Vaaldiam" or the "Company") is a Canadian public company listed on the Toronto Stock Exchange that is engaged in diamond production, mine development and exploration in Brazil and to a lesser extent in Canada. The Company's objective is to continue to increase the underlying value of its shareholders' investment in Vaaldiam by:

- becoming a profitable miner of rough diamonds from primary (kimberlite) sources;
- being a profitable producer of gem quality rough diamonds from secondary (alluvial) sources;
- acquiring other diamond companies by mergers or acquisitions; and
- restructuring its ownership interest in its diamond properties.

Vaaldiam's general strategy to achieve its objective is to generate early cash flow, by acquiring and sequentially developing to production alluvial diamond deposits which typically host predominantly gem quality diamonds. Vaaldiam's Duas Barras and Chapada mines in Brazil are two of such alluvial diamond deposits. Any cash flow from Vaaldiam's alluvial diamond deposits would be used to fund, at least in part, exploration for and evaluation of, advanced stage, diamond bearing kimberlite pipes having the potential for large scale diamond production. Vaaldiam's Braúna and Pimenta Bueno projects in Brazil are two such advanced stage diamond bearing kimberlite projects, while the Candle Lake project in Canada would be another such kimberlite project. In utilizing cash flow from alluvial mines to fund at least in part development of advanced stage kimberlite properties, Vaaldiam endeavours to minimize shareholder dilution arising over time from the issuance of equity to raise capital.

Vaaldiam also evaluates opportunities to increase the underlying value of its shareholders' investment through mergers or acquisitions and the recent acquisitions of Elkedra Diamonds NL ("Elkedra") and Great Western Diamonds Corp. ("Great Western") would be examples of such strategic initiatives.

Finally, Vaaldiam also endeavours to increase the underlying value of its shareholders investment in the Company by restructuring its ownership interests in its properties. Vaaldiam's acquisition of 100% ownership of the Brauna project (from 60%) and the Company's acquisition of 100% ownership (from 49%) and operatorship of the Pimenta Bueno project during 2007 are examples of such restructuring.

Mergers and Acquisitions During 2007

In order to identify suitable merger or acquisition candidates, Vaaldiam continuously monitors the worldwide diamond exploration and production sectors with a view to determining whether a merger with a particular company would be mutually beneficial to the shareholders of both companies. The benefits which Vaaldiam seeks from a merger relates to operating economies of scale, the acquisition of attractive exploration properties, the opportunity to strengthen Vaaldiam's senior management team and the potential for having Vaaldiam re-rated by the market through its sector consolidation initiatives resulting in larger market capitalization and increased share liquidity.

As a result of Vaaldiam's monitoring and a review of information in the public domain, two suitable candidates for merger or acquisition were identified during 2007, namely Elkedra and Great Western.

Elkedra is a diamond production and exploration company which up to the time acquired by Vaaldiam was a public company listed on the Australian Stock Exchange. Elkedra's principal asset is its 100% owned Chapada alluvial mine located in the Brazilian state of Mato Grosso. Following substantial negotiation, the boards of Vaaldiam and Elkedra agreed to an exchange ratio of 0.52 of a Vaaldiam share for each Elkedra share which agreement was embodied in a Merger Implementation Deed dated July 3, 2007.

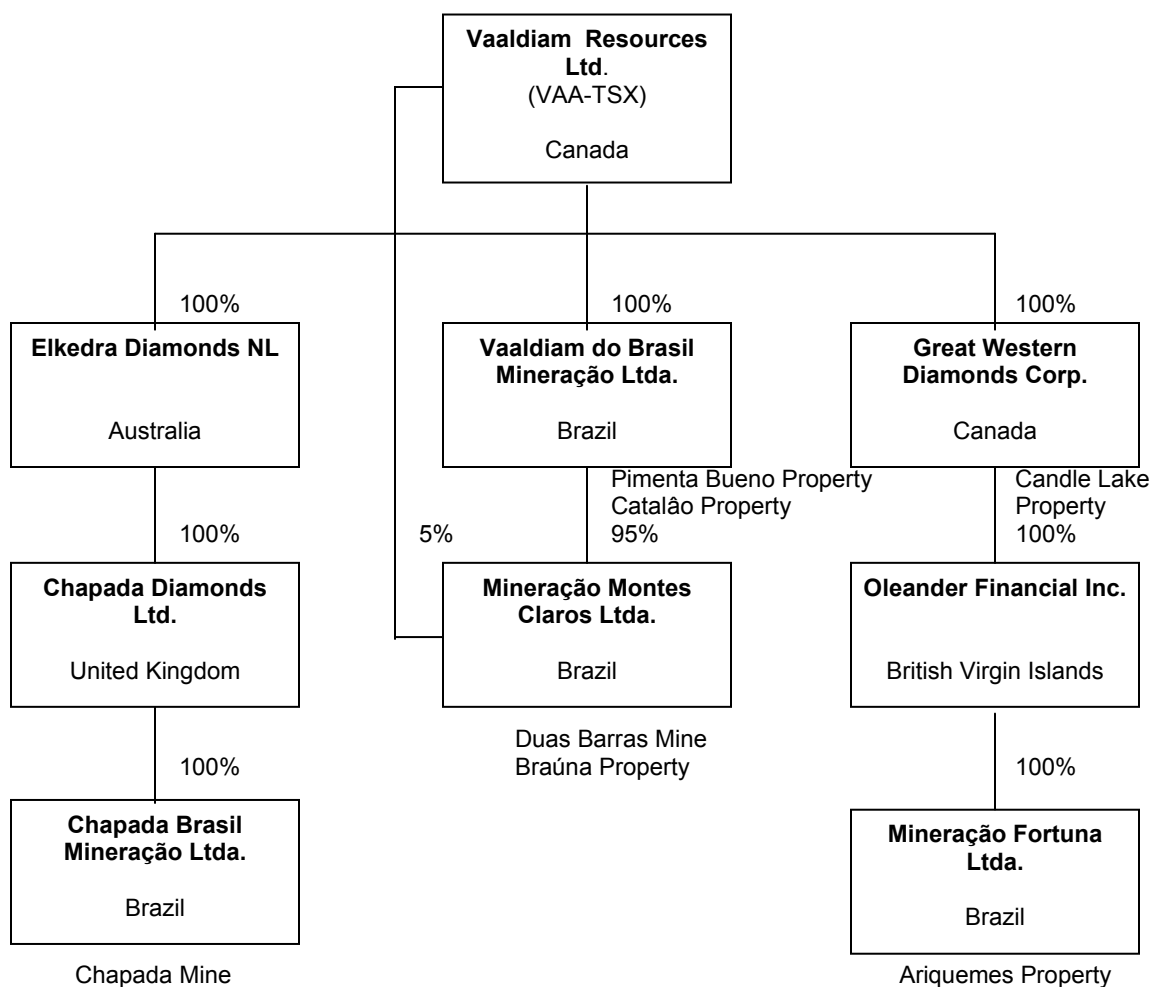
The shareholders of Elkedra met on October 29, 2007 and approved the scheme of arrangement whereby Elkedra and Vaaldiam would be combined. The implementation date of the scheme was November 20, 2007 on which date 55,622,557 Vaaldiam shares were issued to acquire all of the issued and outstanding Elkedra shares.

Great Western is a diamond exploration company which prior to being acquired by Vaaldiam was listed on the Canadian Venture Exchange. Great Western's principal assets are its 100% owned Arique mes kimberlite property located near Vaaldiam's Pimenta Bueno property in the Brazilian state of Rondonia and the Candle Lake kimberlite property in the Fort a la Corne district of Saskatchewan. Following considerable negotiation, the boards of Vaaldiam and Great Western agreed on an exchange ratio of 0.45 of a Vaaldiam share for each Great Western share which agreement was embodied in a Support Agreement dated July 3, 2007.

The formal offer to acquire all of Great Western's shares was mailed to Great Western's shareholders on November 7, 2007. On January 2, 2008, following an extension of the offer, Vaaldiam acquired 82,535,960 Great Western shares in return for the issuance of 37,141,180 Vaaldiam shares. Following a Great Western shareholders' meeting on February 27, 2008 and subsequent application to the Court of Queen's Bench in Saskatchewan, Vaaldiam acquired the remaining 19,008,127 issued and outstanding shares of Great Western on March 10, 2008 in return for the issuance of up to 8,553,657 Vaaldiam shares.

Operations

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



During 2008 Cajueiro Mineração Ltda. which held the Braúna property, was merged with Mineração Montes Claros Ltda. Vaaldiam's Brazilian corporations will continue to be restructured during 2008 to achieve administrative and tax efficiency.

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

Duas Barras Mine, Minas Gerais, Brazil

Vaaldiam's 100% owned Duas Barras Mine is situated 150 kilometres north of the town of Diamantina in the State of Minas Gerais, Brazil. The Duas Barras Mine lies along the left bank of the upper Jequitinhonha River, which has been a significant diamond producing area since the early 1800s. The mineral rights, which are owned by Mineração Montes Claros Ltda., a subsidiary of Vaaldiam, lie within the "Duas Barras Farm", which is owned by Mr. Geraldo Coelho Moura, who controls the surface rights to the farm and who receives a 6% royalty on gross sales revenue from the mine. The mineral rights are held under a Mining Licence granted by the DNPM under licence number 806.569/77 and covers an area of 170.89 hectares.

Construction of the mine commenced in the third quarter of 2006 with the fabrication of the major processing plant components in the cities of São Paulo, Diamantina and Belo Horizonte. These components were delivered to the site in January 2007, when the actual construction of the mine and processing facility commenced. Contract mining operations started in February 2007.

Commissioning of the processing plant commenced on May 14, 2007. A total of 20,786.93 bank cubic metres ("bcm") of gravel was processed during the commissioning stage, resulting in the recovery of 19,676 diamonds with a total weight of 4,904.54 carats. Commercial production started on September 1, 2007, and by year-end 2007 the commercial operation at the mine had processed a total of 97,674.93 bcm of gravel resulting in the recovery of 73,549 diamonds with a total weight of 19,055.62 carats. Total production during 2007, including diamond and gold production during the commissioning of the processing plant, amounted to 93,225 diamonds totalling 23,960.16 carats and 22.63 kilograms (727.58 troy ounces) of gold from 118,461.86 bcm of gravel. The largest diamond recovered to date at the Duas Barras Mine weighed 15.68 carats.

The following table provides a monthly summary of the diamond and gold production at Duas Barras since start up to December 31, 2007.

Month 2007	Ore Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Diamond Grade (cts/bcm)	Gold Recovered (kilograms)
May	91.00	313	54.67	0.17	0.60	Not Recovered
June	1,037.46	2,556	447.73	0.18	0.43	Not Recovered
July	4,014.09	6,610	1,240.33	0.19	0.31	0.85
August	15,644.38	10,197	3,161.81	0.31	0.20	4.99
September	22,837.82	15,139	4,303.78	0.28	0.19	5.90
October	24,243.96	19,366	5,081.96	0.26	0.21	4.34
November	25,835.70	22,207	5,770.75	0.26	0.22	3.55
December	24,757.45	16,837	3,899.13	0.23	0.16	3.00
Totals	118,461.86	93,225	23,960.16	0.26	0.20	22.63

* Production for May, June & July reflects production using a bottom screen of 1.4 mm square mesh, which was changed to a 2.0 mm square mesh bottom screen in late July resulting in a decrease in recovered grade and a corresponding increase in production and in the average stone size of the diamonds during the subsequent months.

Vaaldiam conducted its first sale of diamonds on December 21, 2007. This first production parcel contained 24,730 diamonds with a total weight of 6,421.77 carats, and represented production generated during the commissioning of the production plant at Duas Barras during the period from late May to August, and the first ten days of commercial production which commenced on September 1, 2007. The parcel was sold for gross proceeds of US\$1,054,227.74, representing an average sales value of US\$ 164.16 per carat. At year end, 17,538.39 carats of diamonds and 22.63 kilograms of unrefined gold (727.58 troy ounces) were held in inventory in Brazil awaiting exportation and sale.

At January 1, 2007, a National Instrument 43-101 compliant resource estimate for the Duas Barras deposit reported an indicated resource of approximately 1,843,000 bcm at an estimated grade of 0.16 carats per bcm and 0.18 grams gold per bcm, representing an in-situ diamond resource of 295,000 carats and 335 kilograms (10,780 ounces) of gold. In addition, the deposit contained an inferred resource of approximately 856,000 bcm at an estimated grade of 0.16 carats per bcm and 0.18 grams gold per bcm, representing an in-situ diamond resource of 137,000 carats and 156 kilograms (5,010 ounces) of gold. At December 31, 2007 a total of 118,461.86 bcm of gravel had been processed which resulted in a reduction of the amount of indicated resources comprising the north ore block of the Duas Barras deposit. The adjusted resource estimate for the Duas Barras deposit as of December 31, 2007 is presented below.

Resource Category	Ore Block	Volume (bcm)	Estimated Diamond Grade (ct/bcm)	Carats	Estimated Gold Grade (gm/bcm)	Gold (grams)
Indicated Resource	North	1,209,554	0.16	193,529	0.18	217,720
Indicated Resource	Northwest	291,682	0.16	46,669	0.18	52,502
Indicated Resource	South	202,375	0.16	32,380	0.18	36,428
Total Indicated Resource		1,703,611	0.16	272,578	0.18	306,650
Inferred Resource	North	309,063	0.16	49,450	0.18	55,631
Inferred Resource	West	717,500	0.16	114,800	0.18	129,150
Total Inferred Resource		1,026,563	0.16	164,250	0.18	184,781
Total Resources at December 31, 2007		2,730,174	0.16	436,828	0.18	491,431

Chapada Mine, Mato Grosso, Brazil

Vaaldiam acquired a 100% interest in the Chapada Mine on November 20, 2007 following the completion of the merger with Elkedra Diamonds N.L. During November and December, 2007, the Chapada Mine processed 50,188 bcm of gravel resulting in the recovery of 2,635 diamonds with a total weight of 1,278.90 carats.

Total production for 2007 amounted to 32,320 diamonds with a total weight of 17,891.70 carats from 565,376 bcm of gravel. The largest diamond recovered to date at the Chapada mine weighed 33.44 carats.

The following table provides a monthly summary of the diamond production at Chapada during 2007.

Date 2007	Ore Volume (bcm)	Diamonds Recovered	Total Weight (carats)	Average Stone Size (cts)	Recovered Diamond Grade (cts/bcm)
January	49,352	3,086	1,705.70	0.55	0.03
February	48,155	3,182	1,774.10	0.56	0.04
March	58,429	3,889	2,245.10	0.58	0.04
April	69,238	4,326	2,302.00	0.53	0.03
May	65,305	3,091	1,737.90	0.56	0.03
June	64,709	2,866	1,638.30	0.57	0.03
July	59,609	2,751	1,407.70	0.51	0.02
August	38,430	2,825	1,682.20	0.60	0.04
September	29,222	2,046	1,174.80	0.57	0.04
October	32,739	1,623	945.00	0.58	0.03
November	30,762	1,583	750.00	0.47	0.02
December	19,426	1,052	528.90	0.50	0.03
TOTAL 2007	565,376	32,320	17,891.70	0.55	0.03

The Chapada Mine conducted 12 diamond sales during 2007, selling a total of 34,593 diamonds with a total weight of 19,098.64 carats for gross sales proceeds of US\$7,592,314.89, representing an average sales value of US\$397.53 per carat. A portion of the diamonds sold during 2007, amounting to 1,605.54 carats, represented diamonds that were held in inventory at December 31, 2006. At year end, an additional 398.60 carats of diamonds were held in inventory in Brazil awaiting exportation and sale in 2008. The following table reflects the various diamond sales.

Valuation No	Total No of Stones	Total Carats	Gross Total Value (US\$)	Average Value/Ct (US\$)	Average Stone Size
07-1	3,704	1,995.41	799,942.00	\$ 400.89	0.54
07-2	3,129	1,748.74	642,120.00	\$ 367.19	0.56
07-3	3,210	1,760.60	760,022.04	\$ 431.61	0.55
07-4	5,088	2,923.85	1,302,104.97	\$ 445.34	0.57
07-6	3,988	2,119.32	663,643.86	\$ 313.14	0.53
07-7	3,343	1,900.71	651,943.53	\$ 343.00	0.57
07-8	3,394	1,763.45	623,097.42	\$ 353.34	0.52
07-9	2,534	1,530.70	677,640.89	\$ 442.70	0.60
07-10	2,244	1,281.30	509,957.40	\$ 398.00	0.57
07-11	2,014	1,099.26	563,920.38	\$ 513.00	0.55
07-12	1,945	975.30	397,922.40	\$ 408.00	0.50
2007 Total	34,593	19,098.64	7,592,314.89	\$ 397.53	0.55

At June 1, 2007, a National Instrument 43-101 compliant resource estimate for the Chapada Mine reported an indicated resource of approximately 4,900,000 bcm at an estimated grade of 0.05 carats per bcm, representing an in-situ diamond resource of 245,000 carats. At December 31, 2007 a total of 565,376 bcm of gravel had been processed which resulted in a reduction of the amount of indicated resources comprising the Quilombo ore block of the Chapada deposit. However, a drilling program completed in December 2007 resulted in the discovery of an extension of the Quilombo deposit, which increased the resource by an estimated 191,400 bcm at a grade based on bulk sampling of 0.06 carats/bcm. The adjusted resource estimate for the Chapada deposit as of December 31, 2007 is presented below.

Resource Category	Ore Block	Volume (bcm)	Estimated Diamond Grade (ct/bcm)	Carats
Indicated Resource	Quilombo	1,125,103	0.05	61,873
Indicated Resource	Quilombo Extension	191,400	0.06	11,484
Indicated Resource	Peba			
	Lagoinha	2,500,000	0.05	125,000
Indicated Resource	Satellites	1,000,000	0.05	50,000
Total Resources at December 31, 2007		4,816,503	0.05	248,357

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") 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 dyke 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 joint venture company Cajueiro Mineração S.A. ("Cajueiro") since merged with Mineração Montes Claros Ltda. A detailed ground magnetic survey was completed during the fourth quarter of 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 1.85 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 which overlies the pipes, 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 is being utilized to process the mini-bulk samples extracted from the Braúna pipes. The 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 in Vaaldiam's facilities in the town of Nordestina, which is situated less than five kilometres from the main cluster of pipes.

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
- 1% Gross Sales Royalty on diamond production from the Braúna property.

In May 2007, the Company 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 focused 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 were also excavated from the one hectare Braúna 4 and 7 pipes, which are situated within 1.5 kilometres of the Braúna 3 kimberlite.

The decision to advance to the bulk sampling stage of development followed the successful completion of the Company's initial mini-bulk sampling program at the Braúna 3 pipe. Vaaldiam's initial mini-bulk sampling program involved the extraction of approximately 40 dry tonnes of kimberlite from three vertical

shafts excavated into the Braúna 3 pipe. The kimberlite was extracted in three vertical shafts excavated to depths of approximately 20 metres, testing the northern and southern lobes of the pipe. Processing of the 39.9 dry tonnes of kimberlite resulted in the recovery of 59 diamonds with a total weight of 8.29 carats, indicating a recovered grade of 20.78 carats per hundred tonnes ("cpht"). The average stone size recovered was 0.14 carats. The five largest stones recovered in the mini-bulk sample weighed 1.13, 0.56, 0.55, 0.49 and 0.46 carats.

In September 2007 the Company announced significant diamond results from its initial sampling of the Braúna 8 dike. Braúna 8 is a 4 metre wide, vertically oriented kimberlite dike that lies 5 kilometres north of the Braúna 3 pipe, and forms part of a northwest-trending dike system that has been traced on surface over a distance of approximately 20 kilometres. The Company's initial sampling resulted in the recovery of a total of 104 diamonds with a total weight of 6.60 carats recovered from 16.87 dry tonnes (22.97 wet tonnes) indicating a recovered grade of 39.13 cpht. The five largest stones recovered in the mini-bulk sample weigh 0.92, 0.54, 0.32, 0.30 and 0.30 carats. The largest diamond recovered (0.92 carats) is pink in colour. Another pink diamond appears to have been broken during processing. The remaining diamonds recovered were white in colour.

A second sample of the Braúna 8 dike, extracted to increase the volume of kimberlite for grade determination, resulted in the recovery of a 7.97 carat diamond. This diamond is the largest recovered from the Braúna kimberlites by Vaaldiam and confirmed the presence of large, high value diamonds in the kimberlites. The diamond is a very high quality white octahedral stone with no visual evidence of inclusions. In total, 41 diamonds with a total weight of 10.94 carats were recovered during processing of the second, 13.78 dry tonnes mini-bulk sample, indicating a recovered grade of 79.39 cpht. The average size of the diamonds recovered was 0.27 carats per stone. The five largest diamonds recovered in this sample weighed 7.97, 0.57, 0.49, 0.37, and 0.25 carats.

In October 2007 the Company reported mini-bulk sampling results from the Braúna 11 kimberlite occurrence, a 1.5 to 2.5 metre wide, vertically oriented kimberlite dike situated approximately 2 kilometres south of the diamond bearing Braúna 3 and Braúna 7 pipes. Surface sampling has traced the dike on surface over a distance of approximately 750 metres and it appears to form part of a northwest-trending dike system that has been traced on surface over a distance of approximately 20 kilometres. The Company extracted two samples from two 6 metre deep shafts excavated into fresh kimberlite. The sample shafts were located 200 metres apart, along the surface trace of the dike system. The Company's initial sample produced 19 diamonds with a total weight of 2.81 carats from 16.02 dry tonnes of kimberlite (17.67 wet tonnes), indicating a recovered grade of 17.54 cpht. The average stone size of the diamonds recovered in the initial sample was 0.15 carats, with some diamonds showing evidence of fresh breakage that likely occurred during sample processing. The five largest stones recovered in the mini-bulk sample weigh 0.94, 0.58, 0.40, 0.19 and 0.10 carats. A second mini-bulk sample extracted from a shaft 200 metres to the northwest of the initial sample returned 21 diamonds with a total weight of 2.50 carats from 12.16 dry tonnes of kimberlite (13.33 wet tonnes), indicating a recovered grade of 20.56 cpht. The average stone size of the diamonds recovered from the second mini-bulk sample was 0.12 carats. The five largest stones recovered in the mini-bulk sample weigh 0.87, 0.35, 0.33, 0.17 and 0.13 carats. The diamonds are predominantly white to yellowish-white in colour, with one brown stone of 0.35 carats.

During 2007, the Company also completed a delineation drilling program at the Braúna 3 pipe with the objective to provide sufficient rock volume information for a National Instrument 43-101 resource calculation. A total of 53 drill holes were completed during the program directed at the Braúna 3 pipe, on a detailed grid pattern utilizing 25 metre drill spacing, delineating the kimberlite pipe to a depth of approximately 200 metres. Six drill holes were also completed to test the Braúna 8 and Braúna 21 occurrences, to provide an indication of the thickness, geometry and geology of these kimberlite dikes.

During the year ended December 31, 2007, the Company's Braúna property exploration expenditures were \$2,382,459. To December 31, 2007, Vaaldiam's total expenditures relating to the Braúna property amounted to \$9,707,057, including Vaaldiam's exploration expenses amounting to \$3,755,393 and Vaaldiam's acquisition costs to acquire 100% of the property of \$5,951,664.

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 117,600 hectares and includes exploration results from 645 samples. Vaaldiam acquired this dataset as a result of an agreement with De Beers Brasil Ltda. to purchase De Beers' exploration dataset for the Triara diamond district in northern Mato Grosso state, together with a claim owned by De Beers in the Triara area covered by the dataset. As a result of environmental restrictions, De Beers were unable to transfer ownership of the Triara 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 Triara claim to Vaaldiam.

Vaaldiam has conducted no material exploration within the Aroeira district to date and the amount of \$169,258 reflected as the carrying value of the asset as at December 31, 2007 relates to the cost of acquiring the dataset from De Beers.

Pimenta Bueno Property, Rondônia, Brazil

In June 2007 the Company announced an agreement with Rio Tinto Desenvolvidos Minerais Ltda. ("Rio Tinto") which provides Vaaldiam with operatorship and 100% ownership of the Pimenta Bueno diamond project, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe bulk sampled on the property. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in operating cash flow from the mine without the need to raise development equity funding.

The agreement with Rio Tinto provides that following the recovery of at least 200 carats of commercial sized diamonds from a particular kimberlite deposit in the Southern Block, Rio Tinto may exercise an option to acquire a 60% interest in that particular kimberlite deposit. Rio Tinto would exercise this option by (i) completing a feasibility study at Rio Tinto's expense and (ii) granting Vaaldiam a 40% deferred carried equity interest to production in that kimberlite deposit by extending Vaaldiam a non-recourse project loan to finance Vaaldiam's share of mine development costs. This non-recourse loan would be repaid to Rio Tinto from 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. Under the agreement, Vaaldiam has also assumed operatorship of the 100% owned 40,000 hectares Northern Block of the Pimenta Bueno property.

A total of 38 kimberlite pipes and 3 dike systems have been discovered to date on the Pimenta Bueno property, situated in the State of Rondônia, Brazil, including 7 kimberlites discovered by Rio Tinto over the past two years. Eighteen of the pipes are diamond bearing based on sampling completed to date. Only four of the 38 pipes have been mini-bulk sampled, with less than 200 tonnes of kimberlite having been tested thus far.

Following the agreement with Rio Tinto, the Company mobilized its exploration team to the property to conduct a mini-bulk sampling program on the Cosmos 1 and 2 diamond bearing kimberlites utilizing a sampling method successfully used by Vaaldiam on its Braúna kimberlites. This method involves the collection of 250 tonnes of kimberlite from vertical shafts excavated to a depth of 30 metres. The extraction of samples in this manner will provide the maximum sample coarseness in order to minimize

diamond breakage. In addition, the excavation of kimberlite samples in this manner is a more cost effective method of bulk sampling than using a drill to recover bulk sample material.

As of 31 December 2007 the Company had extracted a 191 tonne sample from three vertical shafts excavated into the 2.3 hectare Cosmos 1 kimberlite to depths ranging from approximately 7 to 14 metres. The goal of this sampling effort is to provide an indication of the diamond grade and diamond distribution in the Cosmos 1 pipe, and to compare the results generated in this sampling program to the results generated from a 62 tonne sample collected by Rio Tinto in 2006. The sample extracted is currently being processed.

During the year ended December 31, 2007, the Company's Pimenta Bueno property exploration expenditures were \$1,295,146 bringing total expenditures by Vaaldiam on the property to date to \$5,070,840 including \$265,311 of acquisition costs.

Catalão Property, Goiás, Brazil

In August 2007 the Company acquired the diamond-bearing Catalão kimberlite pipes from Rio Tinto. The Catalão kimberlites are located in the state of Goiás, approximately 280 kilometres south of Brazil's capital city, Brasilia. The Catalão property encompasses approximately 2,000 hectares. The Catalão 1 kimberlite cluster covers a surface area of 0.75 hectares and is comprised of three pipe-like deposits named Catalão 1A, 1B and 1C. These pipe-like deposits are approximately 0.30, 0.25 and 0.20 hectares respectively. The kimberlite cluster was discovered in the 1970s by a subsidiary of De Beers. Rio Tinto acquired an exploration licence covering an area surrounding the kimberlite in 1998 and completed a detailed exploration program over the following two years which included airborne and ground geophysical surveys, core drilling and mini-bulk sampling. Rio Tinto's mini-bulk sampling program focused on a surface exposure of the Catalão 1A pipe, where three mini-bulk samples with a total weight of approximately 3.6 tonnes resulted in the recovery of 52 diamonds with a total weight of 0.848 carats.

Rio Tinto also completed a drilling program comprising 16 core holes totalling 1,050 metres to define the limits of the Catalão 1A, 1B and 1C bodies to a maximum depth of 201 metres. A total of 5.14 tonnes of kimberlite was processed for total diamond recovery by caustic fusion resulting in the recovery of 145 diamonds with a total weight of 0.51 carats.

Under the terms of the acquisition agreement for the Catalão Property, Vaaldiam will hold 100% ownership of the property, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe that has been bulk sampled, resulting in the recovery of at least 200 carats of commercial sized diamonds. Rio Tinto would exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in operating cash flow from the mine without the need to raise development equity funding. This non-recourse loan would be repaid to Rio Tinto from a portion of Vaaldiam's share of cash flow from the deposit. Should Rio Tinto not exercise its option then Vaaldiam would continue to own 100% of that kimberlite deposit to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam.

Vaaldiam has not yet conducted any material exploration on the Catalão property to date.

Ariquemes Property

The Ariquemes Property is owned by Vaaldiam's now wholly owned subsidiary Great Western. In March 2007 Great Western acquired 100% of Oleander Financial Inc. ("Oleander") from Santa Elina Mines Corporation ("SEMC"). Oleander's wholly owned subsidiary Mineração Fortuna Ltda. owns the Ariquemes Property.

The Ariquemes Property is located in the State of Rondônia some 200 kilometres to the east of the Pimenta Bueno Property. The property comprises some 830,000 hectares and is therefore over three

times larger than the Pimenta Bueno Property. This property was explored for diamonds by De Beers approximately 30 years ago and in 2006 by BHP Billiton in a joint venture with SEMC. Twelve kimberlites have been discovered to date on this property in three clusters and five of the eight kimberlites sampled in 2006 were found to be diamond bearing. The 2006 exploration programs covered approximately two thirds of the western portion of the property and none of the eastern portion. Since the Ariqueemes Property was acquired by Great Western in 2007, an airborne survey conducted by BHP Billiton in 2006 was reprocessed and a multi-parameter ground geophysics survey over two of the known kimberlites was conducted. The results of this work were received late in 2007 and are currently under review. Auger drilling programs were also completed in 2007 to confirm the presence of kimberlite and to help delineate the boundaries of the kimberlites. Great Western also collected kimberlite soil samples late in 2007 for analysis in 2008. In addition to diamonds, it is thought that the property may have potential for the discovery of base metals and Vaaldiam will conduct a preliminary exploration program to determine the property's base metal potential.

Coronation Gulf Properties, Nunavut, Canada

In July 2006, Vaaldiam reached an agreement with Ashton Mining of Canada Inc. ("Ashton"), now a wholly-owned subsidiary of Stornoway Diamonds Ltd., which provided Vaaldiam with an exclusive option to acquire a 40% joint venture interest in Ashton's Coronation Gulf Properties. The Coronation Gulf Properties are comprised of 88 mineral claims encompassing 91,479 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 Properties by spending a total \$3.0 million on exploration by December 31, 2008, of which \$1.0 million was to be spent by December 31, 2006. In addition, the agreement required that Vaaldiam issue Ashton a total of 195,000 common shares over the three-year term of the option, 65,000 shares not later than April 1, 2007 and 130,000 shares not later than April 1, 2008. No shares were issued by Vaaldiam to Ashton under the option agreement.

The three hectare Artemisia pipe is the largest kimberlite pipe found to date on the Coronation Gulf Properties. In August 2006, Vaaldiam collected an 88.25 tonne surface sample from the Artemisia pipe to confirm the presence of commercial sized diamonds, and determine whether the size distribution and quantity of the diamonds was sufficient to justify a larger bulk sampling program during 2007. The processing of the sample was completed using dense media separation by SGS Mineral Services of Lakefield, Ontario. A total of 562 diamonds with a total weight of 13.03 carats were recovered from the 88.25 dry tonnes sample of kimberlite pipe, indicating a recovered grade of 14.77 cph. The five largest stones recovered from the mini-bulk sample weighed 1.01, 0.27, 0.18, 0.12 and 0.10 carats respectively. The mini-bulk sampling results from the Artemisia kimberlite confirmed the presence of commercial sized diamonds. However the sampling results indicated that diamond mineralization was not in concentrations that would significantly improve the grade projections that were based on earlier sampling programs by Ashton in 2001 and 2002. Based on the sampling results, the Company informed Ashton in May 2007 of its decision to terminate the option agreement relating to the Coronation Gulf properties.

To December 31, 2007, Vaaldiam had spent \$1,650,901 in relation to the exploration of the Artemisia property, which has included the collection of the 88.25 dry tonnes mini-bulk sample from the Artemisia kimberlite and which amount has been written off.

Candle Lake Property, Saskatchewan, Canada

Vaaldiam acquired a 100% interest in the Candle Lake Property on March 10, 2008 following the completion of the merger with Great Western. The Candle Lake Property consists of 38 mineral claims totalling 14,151 hectares in the Candle Lake area of the Province of Saskatchewan located about 90 kilometres northeast of Prince Albert, Saskatchewan and 50 kilometres northeast of the Fort à la Corne kimberlite cluster. Great Western holds a 100% interest in all 38 claims subject to royalty interests, however, Great Western has no surface rights to the lands comprising the Candle Lake Property. Two kimberlite bodies have been discovered to date on the Candle Lake Property, namely, the C28 and C29/30 kimberlites. The current exploration focus is on the C29/30 kimberlite.

Drilling and minibulk sample collection during the 2006/7 winter field program at Candle Lake involved drilling of 26 PQ core holes (85 mm diameter) totalling 6,306.22 m covering part of the southern portion of the C29/30 kimberlite body and along approximately 1,000 m of the central axis of the kimberlite body. A subset of these core holes was utilized as pilot holes for nine large diameter (609.6 mm or 24 inch), reverse circulation drill holes (LDD) of which seven were located on the southern part of the C29/30 kimberlite and two on the central and northern axis of the kimberlite.

A total of 2,215.14 m were drilled as large diameter boreholes with 856.25 m of kimberlite intersected and 497.97 tonnes of +0.98 mm minibulk sample material retained from an estimated excavated mass of 624.77 tonnes. Samples are being processed on a 3 to 9 metre interval basis within the boundaries of individual kimberlite units that were determined by detailed description of rock from core holes twinned by the LDD.

A summary of minibulk samples from the 2006-7 Candle Lake large diameter drilling program is as follows:

LDD Minibulk Drillholes	Nominal Hole Diameter (mm)	Kimberlite Thickness (meters)	Number of Samples	Total Drill Depth (meters)	Total Kimberlite Excavated (tonnes)	Actual Sample Mass (tonnes)
CL-06-LD-001	609.6	98.78	17	247.77	72.08	49.67
CL-07-LD-001	609.6	114.90	22	263.30	83.84	73.47
CL-07-LD-002	609.6	33.60	8	195.00	24.52	18.55
CL-07-LD-003	609.6	100.55	19	247.90	73.37	61.91
CL-07-LD-004	609.6	87.77	15	234.75	64.04	46.55
CL-07-LD-005	609.6	110.40	19	257.50	80.55	70.81
CL-07-LD-006	609.6	117.44	21	270.61	85.69	68.12
CL-07-LD-007	609.6	99.81	17	253.31	72.83	53.59
CL-07-LD-008	609.6	93.00	17	245.00	67.86	55.49
Totals		856.25	155	2215.14	624.78	498.16

"Total Kimberlite Excavated" is based on calculated downhole volumes using estimated kimberlite density value of 2.5.

"Actual Sample Mass" refers to excavated kimberlite chips passing over a wire mesh screen with openings greater than 0.98 mm and then recovered in minibulk bags for diamond recovery.

The SRC Geoscientific Laboratories ("SRC") in Saskatoon, Saskatchewan dense media plant commenced processing the Great Western samples on September 13, 2007 after a protracted period of plant construction and commissioning. There are a total of 155 batches to run through the plant with each batch averaging some 4 tonnes in size. At present, the plant operates an average of 14 hours per day for six days a week. A typical daily run will process about 14 tonnes of kimberlite, or an average of 3.5 batches per day.

During the first pass of processing, samples are washed in a scrubber unit to remove less than 0.85 mm fines and then screened through a trammel to separate chips greater than 12.5 mm. This oversize material is crushed to produce chips less than 12.5 mm in size and then re-introduced to the scrubber. All "right-sized" material (nominally +0.85 mm chips) is processed in the Dense Media Separation ("DMS") unit with a specific gravity cut point of 3.00 to 3.05 g/cm³ and 100% cut at a maximum of 3.25. The plant is rinsed out between batches and there is a major gravel cleanout conducted between lithological zones. DMS tailings from each batch undergo a second pass that includes crushing to 6 mm and recirculation through the plant to create a second heavy mineral concentrate. All DMS concentrates are collected in individual pails having security seals within a secure glove box. Recovered DMS concentrates are running between 0.2 – 1% of head feed mass; (or an average of 6 kg of heavy minerals recovered per tonne of input). The concentrate material from each batch is processed using the SRC high security diamond facility Caustic Fusion method (ISO/IEC 17025:2005 accredited method) to produce a final concentrate that is picked by hand for diamond. Each recovered diamond is then fully described including comments on possible diamond breakage, and weighed before reporting to the Company.

As due diligence, SRC management provides independent security measures to monitor all stages of processing of the samples. All clean-up material is processed separately. Approximately 15 batches (10%) will be re-run to check heavy mineral returns to DMS concentrate and then diamond recovery efficiencies utilizing caustic fusion and, or hand sorting. By year end 2007, over half of the diamond recoveries had been completed. It is anticipated that diamond recoveries and their evaluation will be fully completed during the second quarter of 2008.

The 2007/8 winter program includes delineation drilling on the C29/30 kimberlite of up to 25 PQ (76.2 mm) core holes with the main objective of delineation and sampling for microdiamond recovery on the south part of the kimberlite with the secondary objective of completing holes for delineation purposes on the central and northern parts of the kimberlite. On February 27, 2008 a private placement of \$2,000,000 of flow-through shares was completed to fund the 2007/8 winter exploration program on the Candle Lake property.

The main objective of the advanced exploration program is to enable a threshold decision for further work on the C29/30 kimberlite based on a Conceptual Mine Study by the end of 2008. The completion of the first phase of this program has provided important insights into the geology and geometry of the body and provides encouragement as the results from the microdiamond analysis and the bulk samples are awaited which will provide grade and early value estimates of the kimberlite. The work carried out to date, plus the ongoing environmental studies places, will contribute to completing this early evaluation program and will allow movement to the next phase of the development of the C29/30 kimberlite. This aggressive evaluation program is designed to provide the necessary amount of information on which to base a well-informed "go-no-go" decision to continue work towards developing a National Instrument 43-101 compliant inferred resource calculation. A positive conclusion to the current program would result in planning for continued minibulk sampling by large diameter drilling and determination of feasibility for bulk sampling through underground test mining that would complete the sampling and data requirements for an inferred resource.

Centennial Project, Saskatchewan, Canada

The Centennial Project in Saskatchewan was acquired on March 10, 2008 as a result of the completion of the merger between Vaaldiam and Great Western.

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

Sufficient information is known to date to conduct follow-up ground geophysical surveys over the new targets and then core drilling if warranted. However, all future exploration work in this area has been delayed due to difficulties in obtaining a surface access agreement with the local First Nations under the "Duty to Consult" obligation of Saskatchewan Environment during the permitting process. Saskatchewan Industry and Resources have put an indefinite extension on deadlines for submission of assessment work to maintain claims in good standing. Regular contact with the First Nations group involved is on-going and negotiations with the Canoe Lake Cree Nation for an Early Exploration Agreement are underway.

Other Saskatchewan, Canada Properties

The Snowden and Brown Bay properties in Saskatchewan were acquired as a result of the completion of the merger between Vaaldiam and Great Western on March 10, 2008. During 2006 and 2007 Great Western completed a geophysical survey and a 328 metres two core hole drilling program on the

Snowden property. Sampling of core from a short interval of kimberlite will take place in 2008. A ground geophysical survey of the Brown Bay property was completed in 2007 and the results of this survey prompted Great Western to allow these claims to lapse.

Alberta Area Properties, Canada

The Alberta Area Properties were acquired on March 10, 2008 as a result of the completion of the merger between Vaaldiam and Great Western. The Alberta Area Properties consist of the Utikuma, Peerless Lake, Calling Lake and Birch Mountain properties. During 2007, Vaaldiam spent \$173,730 on the exploration of these properties in return for a 1% gross sales royalty on any diamonds sold from these properties should they be brought to production.

At the Calling Lake and Peerless Lake properties Great Western in 2007 collected bulk samples for indicator mineral chemistry analysis, the results of which are currently under evaluation. At the Utikuma property bulk samples were also collected during 2007, with the objective of tracking kimberlite indicator minerals to their source. Samples from the Utikuma property were submitted for processing in late 2007 and results are awaited. The Birch Mountain property was acquired in January 2007 and no significant work has been performed on this property to date.

Australian Properties

The Company, through its wholly-owned subsidiary Elkedra, holds exploration permits in four Queensland tenements, namely, Cravens Peak, Cravens Peak North, Seymour River, and Thornton River. Through an agreement with Uramet Minerals Ltd. ("Uramet"), a company listed on the Australian Securities Exchange and a former subsidiary of Elkedra, Uramet holds the non-diamond exploration and mining rights to these properties, while Elkedra holds the diamond exploration and mining rights on several Uramet owned tenements in the Northern Territory, namely, Dulcie, Field River, Marqua, Central Mount Stuart, Mount Skinner East, Harper Springs and Prince Henry.

Selected Financial Information

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sales	\$ 1,399,303	\$ -	\$ -
Net loss - total	\$ 5,444,390	\$ 3,517,506	\$ 1,007,251
- per share	\$ 0.06	\$ 0.04	\$ 0.02
Cash and cash equivalents	\$ 10,928,569	\$ 12,318,783	\$ 6,817,542
Restricted cash	\$ -	\$ 429,300	\$ 1,331,916
Working capital	\$ 11,849,446	\$ 11,455,710	\$ 7,966,995
Total assets	\$ 123,253,824	\$ 24,862,182	\$ 13,593,562
Future tax liabilities	\$ 25,856,571	\$ -	\$ -
Shareholders' equity	\$ 94,943,344	\$ 23,344,846	\$ 13,276,648
Cash dividends per share	\$ -	\$ -	\$ -

Summary of Quarterly Results

<u>Quarters Ended</u>	<u>Sales</u>	<u>Net Loss</u>	
		<u>Total</u>	<u>Per Share</u>
December 31, 2007	\$ 1,399,303	\$ (616,447)	\$ (0.00)
September 30, 2007	-	(680,456)	(0.01)
June 30, 2007	-	(751,769)	(0.01)
March 31, 2007	-	(3,395,718)	(0.04)
December 31, 2006	-	(926,003)	(0.01)
September 30, 2006	-	(193,701)	(0.00)
June 30, 2006	-	(382,991)	(0.00)
March 31, 2006	-	(2,014,811)	(0.03)

During the year ended December 31, 2007, a loss of \$5,444,390 or \$0.06 per share was recorded compared to a loss of \$3,517,506 or \$0.04 per share during the corresponding period of the prior year. The increased loss of \$1,926,884 arose primarily from an increase in corporate and general expenses of \$1,174,502, an increase in amortization of \$172,994, an increase in write off of exploration properties of \$485,223, mine infrastructure and administration expenses of \$855,985 and a reduction of interest income of \$177,748. The increase in corporate and general expenses arose mainly from a higher level of activity in the most recent year requiring additional personnel, upgraded control systems, increased audit fees and increased general administration expenses.

The increase in amortization expense arose from an increase in the Company's fixed assets while the increase in write off of exploration properties arose from the write off of the Coronation Gulf Property in 2007. Mine infrastructure and administration expenses of \$855,985 were recorded in 2007 compared to a nil balance in the prior year as 2007 was the initial year during which the Company had mines in operation. Interest income declined due to a lower average level of cash and cash equivalents on deposit.

During the quarters ended March 31, 2007 and 2006, amounts of \$1,495,325 and \$1,418,100 respectively were incurred relating to stock based compensation expenses. In addition, during the quarters ended March 31, 2007 and 2006, amounts of \$1,514,753 and \$453,660 respectively were written off representing exploration expenses incurred with respect to the Coronation Gulf property in 2007 and the Hotish property in 2006. During the quarter ended December 31, 2006, the Haute Kotto property in the Central African Republic was written off in the amount of \$709,335 while a partially offsetting income tax recovery of \$180,600 was also recorded related to the renunciation of tax credits to flow-through share investors.

To date, seasonality has had relatively little effect on the quarterly financial results of the Company, with the exception of the renunciation of Canadian Exploration Expense to flow-through share investors, which typically takes place in the last quarter of the year during which flow-through shares are issued, resulting in a related income tax recovery. With two mines now producing in Brazil, it is possible that the wet season, corresponding to part of the first and fourth quarters, could have some effect on diamond operations.

Liquidity

As at December 31, 2007, the Company had working capital of \$11,849,446, the cash and cash equivalent portions of which was \$10,928,569. Cash equivalents mainly 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. Vaaldiam has never invested in asset backed commercial paper. As at December 31, 2007, the Company had no restricted cash as all flow-through expenditure obligations of Vaaldiam as of that date had been fulfilled.

While diamond and gold inventories as at December 31, 2007 were recorded at cost of \$2,153,410 these inventories included 17,937 carats of unsold diamonds and 728 ounces of unrefined gold. These diamonds were later sold for gross proceeds of approximately US\$167 per carat or approximately US\$3,000,000 in total. The accumulated unrefined gold inventory as at December 31, 2007 has not yet been sold.

Accounts payable and accrued liabilities at December 31, 2007 amounted to \$2,067,522.

During 2007, the Company completed a financing which provided gross proceeds of \$26,325,000 from the issuance of 29,250,000 subscription receipts at \$0.90 per receipt, each subscription receipt being comprised of one common share and one-half of one common share purchase warrant, each whole warrant exchangeable for one additional common share of the Company at an exercise price of \$1.20 on or before August 15, 2009. The net cash proceeds of this financing after financing expenses was \$24,450,985.

In December 2007, Vaaldiam repaid Elkedra project debt related to the development of the Chapada Mine of \$7,198,482 and which bore interest of 10% as a result of which the Chapada Mine became debt free.

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.

Vaaldiam has no debt nor lines of credit.

Capital Resources

As at March 27, 2008, Vaaldiam had cash of \$6.8 million.

A potential source of additional capital would be the exercise of options. As at March 27, 2008, 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
208,000	November 30, 2009	\$0.50	104,000
650,000	November 30, 2009	\$0.58	377,000
650,000	November 30, 2009	\$0.91	591,500
40,000	December 14, 2009	\$0.40	16,000
234,000	December 31, 2009	\$0.99	231,660
55,000	May 10, 2010	\$0.50	27,500
100,000	August 4, 2010	\$0.85	85,000
810,000	November 8, 2010	\$0.84	680,400
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
495,000	August 25, 2011	\$1.44	712,800
225,000	December 27, 2011	\$0.95	213,750
2,675,000	January 24, 2012	\$0.85	2,273,750
180,000	February 23, 2012	\$1.02	183,600
1,080,000	April 2, 2012	\$0.95	1,026,000
6,920,000	February 26, 2013	\$0.45	3,114,000
18,507,000			\$ 12,318,210

An additional potential source of capital would be the exercise of warrants. As at March 27, 2008, the Company had issued the following unexercised warrants.

No. of Warrants	Expiry Date	Exercise Price	Potential Proceeds
1,308,612	June 22, 2008	\$1.77	\$ 2,316,243
173,334	September 3, 2008	\$0.66	114,400
37,316	September 28, 2008	\$1.77	66,049
3,250,000	September 30, 2008	\$0.58	1,885,000
344,363	December 21, 2008	\$1.33	458,003
217,670	December 21, 2008	\$1.00	217,670
1,755,000	February 15, 2009	\$0.90	1,579,500
900,000	February 23, 2009	\$1.33	1,197,000
126,000	February 23, 2009	\$1.00	126,000
270,000	February 27, 2009	\$0.55	148,500
360,361	March 9, 2009	\$1.00	360,361
6,350,000	March 30, 2009	\$1.33	8,445,500
900,000	March 30, 2009	\$1.00	900,000
1,033,750	March 30, 2009	\$1.33	1,374,888
128,375	March 30, 2009	\$1.00	128,375
64,188	March 30, 2009	\$1.33	85,370
14,625,000	August 15, 2009	\$1.20	17,550,000
877,500	August 15, 2009	\$1.20	1,053,000
131,895	August 16, 2009	\$1.00	131,895
1,040,000	May 13, 2010	\$1.40	1,456,000
104,000	May 13, 2010	\$1.89	196,560
33,997,364			\$ 39,790,314

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 leases, the Company is committed to pay an amount of \$313,338 over a period of between four months to 30 months in respect of property leases in Canada and Brazil.

Transactions with Related Parties

During 2004, as part of the \$2,580,000 private placement of units and flow-through shares completed during September, four directors subscribed for a total of 531,975 units of Vaaldiam, at \$0.45 per unit for a total of \$212,790; each unit consisting of one common share and one half of a common share purchase warrant; each whole warrant being exercisable to acquire one common share of the Company at an exercise price of \$0.50 per share on or before the twelve months anniversary of date of issue. The funding to acquire the units was provided by initially short-term interest free loans extended by the Company to the four directors. The term of these loans was subsequently extended, so that the loans were repayable in full on or before June 30, 2006. In addition, during the quarter ended September 30, 2005, a short-term interest free loan, repayable on or before June 30, 2006, was granted to a director and officer to acquire common shares of Vaaldiam in the amount of \$20,494. All unpaid share purchase loans to directors since January 1, 2006 bear interest at Canadian prime rate plus 3%. As at December 31, 2006 all directors' loans relating to the purchase of shares save one loan of \$100,000, had been repaid in full plus interest. The remaining loan of \$100,000, together with interest thereon was repaid on March 16, 2007.

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 repaid with interest thereon on December 20, 2007.

During 2007 an amount of approximately \$40,729 was paid to a company owned by a significant shareholder for accounting and administrative services provided to the Company's Brazilian subsidiaries during 2006.

On January 2, 2008, Vaaldiam took up 82,535,960 Great Western shares and paid for these shares by the issuance of 37,141,180 Vaaldiam shares in accordance with Vaaldiam's offer to purchase of November 7, 2007. Included in the 82,535,960 Great Western shares taken up were 28,177,778 shares owned by Zoneplan Limited ("Zoneplan") and 5,900,000 shares held by Mr. Peter Marrone. As a result of tendering their Great Western shares to the Vaaldiam offer, Zoneplan received 12,680,000 Vaaldiam shares while Mr. Marrone received 2,655,000 Vaaldiam shares. Zoneplan is a wholly-owned subsidiary of SEMC which indirectly beneficially owns approximately 20% of Vaaldiam's issued and outstanding shares and is Vaaldiam's largest shareholder. Mr. Peter Marrone is Chairman of the Board of Directors of Vaaldiam.

On March 10, 2008, Vaaldiam took up the remaining Great Western issued and outstanding common shares which it did not own as a result of which Great Western became a wholly-owned subsidiary of Vaaldiam. As at that date all unexercised warrants and options of Great Western became exercisable into Vaaldiam shares. As of March 10, 2008 Zoneplan owned 14,088,889 warrants of Great Western which if exercised would result in the issuance of 6,340,000 additional Vaaldiam shares to Zoneplan. As of March 10, 2008, Mr. Peter Marrone owned 2,244,445 warrants of Great Western which if exercised would result in the issuance of 1,010,000 additional Vaaldiam shares to Mr. Marrone. The warrants owned by Zoneplan and Mr. Marrone are exercisable at \$1.33 per Vaaldiam share on or before March 30, 2009.

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.

Management Report

Management's Responsibility for Consolidated Financial Statements

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

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

Management's Assessment of Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2007 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, 2007, 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 to March 27, 2008, 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 year ended December 31, 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 December 31, 2007, exploration properties were reflected in the Company's balance sheet at \$97,547,162.

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

Changes in Accounting Policies Including Initial Adoption

Vaaldiam's accounts are stated using Canadian GAAP. The Company's accounting policies have not changed during 2007 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 \$7,945,712 of the Company's cash assets as at December 31, 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 March 27, 2008, the following were the undiluted and fully diluted common shares outstanding:

Undiluted common shares outstanding as at December 31, 2007	168,073,761
Shares issued to date to acquire Great Western	<u>37,141,180</u>
Undiluted common shares outstanding	205,214,941
Shares issuable on exchange of remaining Great Western shares ⁽¹⁾	8,553,657
Shares issuable on exercise of options	18,507,000
Shares issuable on exercise of warrants	<u>33,997,364</u>
Fully diluted shares outstanding as at March 27, 2008	<u>266,272,962</u>

⁽¹⁾ Great Western shareholders have until March 10, 2014 to submit their shares for cancellation and replacement by Vaaldiam shares.