



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND
FINANCIAL PERFORMANCE
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

All dollar figures are quoted in Canadian dollars unless otherwise specified

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management's Discussion and Analysis ("MD&A"), which has been prepared as of November 8, 2011, provides a review of the financial performance of Vaaldiam Mining Inc. ("Vaaldiam" or the "Company") and should be read in conjunction with the unaudited comparative condensed consolidated financial statements and related notes for the nine months ended September 30, 2011, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and for the three months ended March 31, 2011, prepared in accordance with IFRS. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

COMPANY HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2011 ("Q3-2011")**Projects****• Braúna Kimberlite Project:**

- ◆ In Q3-2011, global economic uncertainties depressed all equity markets: the downgrading of the United States debt rating, the European sovereign debt crisis and slowing growth in China increased market volatility and effectively closed the capital markets to junior resource companies with earlier stage projects, such as Vaaldiam.
- ◆ The Company elected not to make a payment of US\$1.5 million owed to its joint venture partners in the Braúna project on August 4, 2011 because of this negative combination of events. The payment was due under the terms of the March 4, 2011 agreement (the "March Agreement") whereby Vaaldiam was to have increased its interest in the project to 51%. Instead, the Company negotiated a new agreement with the joint venture partners on September 30, 2011 (the "September Agreement").
- ◆ Under the terms of the September Agreement, the Company agreed with its joint venture partners to terminate the March Agreement and to recover approximately US\$800,000 currently held in escrow by its joint venture partners. In exchange for terminating its liability for financing and developing Braúna, the Company will convert its 51% equity interest in Braúna to a 1% Gross Sales Royalty on all diamond production from the property. The joint venture partners have now resumed the exploration and development program at Braúna. The Company will also maintain its rights to explore the Braúna property for gold.

• Duas Barras Mine:

- ◆ In Q3-2011 the Duas Barras mine remained on care and maintenance.
- ◆ On November 1, 2011, the Company entered into an agreement to sell the Duas Barras mineral rights and its plant and equipment for R\$1.33 million, of which a non-refundable deposit of R\$250,000 was received on November 7, 2011. It is expected that the sale will close in November 2011 when the definitive agreements will be signed and the balance of the proceeds received.

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Freegold Loan Restructure:

- ◆ In Q3-2011 the Company agreed with Freegold Ventures Limited ("Freegold") (TSX: FVL, Frankfurt: FR4N) to restructure the payment of approximately \$855,000 owed by Freegold to Vaaldiam which was due to be repaid in full on October 1, 2011.
- ◆ Under the restructured agreement, Freegold paid Vaaldiam \$250,000 on October 1, 2011 and the balance of the debt will be repaid on November 30, 2011. The portion outstanding will continue to bear interest at an annual rate of 6%.
- ◆ Freegold is making good progress with its drilling programs at its gold properties in Alaska, and by deferring the payment due to the Company by two months, it is allowing Freegold to further its exploration work on its properties.

Investments and Royalty Transactions

- Vaaldiam owns a 1.5% gross revenue royalty on all products from the Kwale Mineral Sands Project (the "Kwale" project) in Kenya. In May 2011, Base Resources Limited ("BRL", previously Base Iron Limited) (ASX: BSE) announced that it has completed the Enhanced Definitive Feasibility Study ("EDFS") for the project with increased ore reserves and a projected mine life of 13 years. BRL expects production to commence mid-2013. The EDFs forecasts total revenues to exceed US\$2 billion with more than half of the total revenue occurring in the first five years of the 13 year life. Using these assumptions, Vaaldiam's 1.5% royalty has an undiscounted value exceeding US\$30 million and the discounted value benefits from the early timing of the cash flows. By September 2011, BRL had raised capital of A\$162.3 million through the share issues and rights offer announced on August 1, 2011. This combined with the US\$170 million syndicated project finance facility approved in July 2011 means that BRL has the requisite funds to proceed with the development of the Kwale project.
- As at September 30, 2011, Vaaldiam owns 10,625,000 common shares (18.47%) of Flemish Gold Corp. ("Flemish", previously Kivu Gold Corp.), a private corporation incorporated under the Canada Business Corporation Act, focusing on precious metals exploration in sub-Saharan Africa. Flemish is progressing with its drilling program but will defer its original plans to obtain a listing on a Canadian stock exchange until market conditions for junior resource companies improves.
- As at September 30, 2011, Vaaldiam owns 2,824,128 common shares (6.55%) of Freegold, which is actively exploring three gold properties in Alaska: Golden Summit, Rob and Vinasale. Freegold common shares closed at \$0.70 on September 30, 2011.

Financial Position

- As at September 30, 2011, Vaaldiam has cash and cash equivalents of \$3.1 million, and working capital of \$4.0 million. Vaaldiam also owns marketable securities of Freegold valued at \$2.0 million as well as 18.47% of Flemish. Vaaldiam also holds royalty rights in the Kwale project in Kenya, the Pukaqaqa project in Peru and the Braúna project in Brazil.

OVERVIEW

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

The Company is engaged in exploration in Brazil. It also holds investments in companies with advanced mineral projects as well as royalty interests. With the termination of the March Agreement, Vaaldiam has no significant exploration properties and is reviewing its strategic alternatives. The Company has retained Raymond James Ltd. as its financial advisor to identify and analyse the strategic alternatives available to the Company with a view to undertaking one or more transactions that will recognize the full value of the Company and/or its assets.

THE CAPITAL MARKET

Capital markets were largely closed to junior resource companies in the second and third quarters of 2011. Despite strong commodity prices, macro-economic events caused investors globally to raise cash levels and reduce equity investments of all kinds. The earthquake in Japan, the European debt crisis, slowing growth in the United States and China, the downgrades to the United States debt rating, all contributed to increased risk aversion. The junior resource sector is characterized by periods of extreme

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variability in terms of capital availability and the key success factor for junior companies in periods such as this is to reduce costs and survive until resource risk capital is available again. Vaaldiam is currently pursuing this strategy.

OPERATIONS***EXPLORATION*****Braúna Property, Bahia, Brazil**

The Company has a contractual right to explore and develop for gold in the southern areas of the Braúna property which are where gold is known to occur and garimpeiro operations exist. The Company also owns the rights to any gold which may be discovered or produced on the entire Braúna property other than as a by-product of diamond mining operations. Pursuant to the September Agreement, the mineral rights to the Braúna property will remain registered to LML.

The Braúna property is located within the gold-producing Rio Itapicuru Greenstone Belt, which hosts Yamana Gold's Fazenda Brasileiro Mine and several advanced exploration projects where both open pit and underground gold reserves and resources have been delineated. In 2009, the Company commenced an exploration program to test the potential of the gold occurrence. Geological mapping of the area encompassing the gold occurrence has traced a quartz vein system over a strike length of 800 metres. The quartz vein system exhibits widths ranging from 0.5 to 2 metres. The Company also collected a total of 66 soil samples on a grid pattern (100 metre by 25 metre spacing) covering the strike extension of the vein system. In addition to the soil sampling survey, geologists also collected rock samples across the width of the vein system at regular intervals along the strike length of the vein system. Two vertical shafts, located 125 metres apart along strike and excavated to a depth of up to 30 metres were sampled by Vaaldiam, returning gold assays of 21.28 grams per tonne (0.68 ounces per tonne) and 5.98 grams per tonne (0.19 ounces per tonne) respectively.

Gold was first discovered on the Braúna property in the mid-1930s by garimpeiro miners who had been recovering alluvial gold from gravel deposits found in the Itapicuru River. Around the mid-1990s, mining of the alluvial deposits in the river eventually led the miners to a northeast trending quartz-vein system that lies adjacent to the river. Miners have manually excavated a series of open trenches and shafts along the strike length of the vein system, which has been traced on surface over a distance of approximately 800 metres. Surface and shallow underground exposures excavated by the garimpeiro miners along a strike length of approximately 350 metres, suggests the vein system ranges from 0.5 metres to 2 metres in width.

Catalão Property, Goiás, Brazil

The Catalão kimberlites are located in the state of Goiás, approximately 280 kilometres south of Brazil's capital city, Brasilia. The property encompasses nine possible kimberlite pipes, including the one hectare Catalão 1 pipe, which appears to be the largest of the nine pipes discovered to date. Vaaldiam holds 100% ownership of the property, subject to Rio Tinto retaining an option to acquire a 60% interest in any kimberlite pipe that has been bulk sampled, resulting in the recovery of at least 200 cts of commercial sized diamonds. Rio Tinto could exercise this option by fully funding a feasibility study relating to the kimberlite and, should the feasibility study be successful, by providing Vaaldiam with a non-recourse project loan to finance Vaaldiam's share of mine development costs, thereby allowing Vaaldiam to retain a 40% equity interest in operating cash flow from the mine without the need to raise development equity funding. This non-recourse loan would be repaid to Rio Tinto from a portion of Vaaldiam's share of cash flow from the deposit. Should Rio Tinto not exercise its option then Vaaldiam would continue to own 100% of that kimberlite deposit to be dealt with at Vaaldiam's sole discretion. Any alluvial deposits developed on the property would be 100% owned by Vaaldiam.

The Catalão Property is carried on Vaaldiam's books at a cost of \$9,000 representing the expenditures incurred up to September 30, 2011.

SUSPENDED OPERATIONS

Vaaldiam owns two alluvial diamond mines in Brazil, namely the Duas Barras Mine (100% ownership) in the State of Minas Gerais, Brazil, and the Chapada Mine (100% ownership) in the State of Mato Grosso, Brazil. Pre-production activities restarted at the Duas Barras Mine during the third quarter of 2010, following the suspension of operations in October 2008 as a result of weak rough diamond markets resulting from the global economic crisis. By the end of Q1-2011, as Duas Barras continued to produce diamonds

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and gold at a grade lower than expected, the Company ceased pre-production activities at the mine. Mining operations at the Chapada Mine had been suspended at the end of June 2008 in response to the economic crisis and have not been restarted. Both mines are currently on care and maintenance.

Duas Barras Mine, Minas Gerais, Brazil

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

During Q1-2011 a total of 4,355 carats of diamonds and 6.9 kilograms (221 troy ounces) of gold were recovered from 58,397 bcm of gravel resulting in an average diamond grade of 0.07 cts per bcm and an average gold grade of 0.12 grams of gold per bcm. An additional 47.25 cts were added to the diamond inventory in 2011. The stones were recovered from fines, grease table tailings and exploration from 2006, 2008 and 2010.

As this represented much lower than expected grades of both diamond and gold, the Company suspended its operations at Duas Barras indefinitely in April 2011, until such time that increases in diamond prices will have improved the economics of the mine and allow re-starting. The mine has been put on care and maintenance since then. No production took place in Q2-2011. A trace amount of 36.97 cts were recovered when cleaning out the plant.

Two diamond sales totaling 6,227 cts were made in January 2011 at an average value of US\$83.88/ct, the lower price reflecting the small size of the diamonds recovered from processing gravels that blended the low grade 2008 stockpile and transitional gravels. In March 2011 a 3,152 cts parcel comprised of a mixture of smaller diamonds from December 2010 production and a production parcel of diamonds with a larger average stone size from the first half of January 2011 production sold for an average value of US\$105 per ct. In May 2011, the 3,930.31 cts of diamonds remaining from the Q1-2011 production were sold for US\$545,000 at an average value of US\$138.67 per ct. The following table provides a summary of the diamond sales completed to date in 2011:

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

In Q1-2011, 6.9 kg or 221 ounces of gold were recovered at an average grade of 0.07 per bcm, and 7.2 kg or 231 ounces of gold were sold for gross proceeds of US\$321,000, representing US\$1,390/oz. In Q2-2011, no gold was recovered and 0.6 kg or 21 ounces of gold were sold for US\$30,000, representing US\$1,450/oz.

At the end of 2010, the Company reviewed the property for impairment and in the last quarter of 2010 decided to record an impairment loss of approximately \$4.9 million. With the closing down of Duas Barras in April to focus on Braúna, the Company reviewed the property for further impairment and took an impairment loss of \$6.1 million in Q1-2011. This represented the full carrying value of Duas Barras mine and plant and equipment as at March 31, 2011.

In September 2011, offers were received from potential buyers who expressed interest in Duas Barras, and discussions were made with a view to selling the property. As a result, the Company reversed its previous impairment and reclassified the resulting value as into assets held for sale. As at September 30, 2011, the assets held for sale attributable to Duas Barras were \$1,294,000 and the liabilities directly related to assets held for sale were \$547,000. On November 1, 2011, the Company entered into an agreement to sell the Duas Barras mineral rights and its plant and equipment for R\$1.33 million, of which a non-refundable deposit of R\$250,000 was received on November 7, 2011. It is expected that the sale will close in November 2011 when the definitive agreements will be signed and the balance of the proceeds received.

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Chapada Mine, Mato Grosso, Brazil

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

Mining operations at the Chapada Mine remained suspended during Q3-2011 with a minimum of staff and security personnel.

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

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

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

On February 24, 2010 the Company and BRL signed a binding Heads of Agreement ("HoA") for a transaction in which BRL acquired the Kwale project, all the intellectual property associated with Vaaldiam's mineral sands projects in Africa and an option to acquire 100% of TKL. Pursuant to the sale which closed on July 30, 2010, Vaaldiam received in cash US\$3 million less the US\$60,000 deposit previously received and, if the project reaches commercial production, a cash royalty of 1.5% of all product revenue (FOB Mombasa) from Kwale will be paid monthly in arrears. Pangea Goldfields, a 100% owned subsidiary of Barrick Gold Corporation will receive an additional 0.5% royalty on the same terms and conditions as Vaaldiam in exchange for waiving various rights that it acquired in prior transactions with Vaaldiam.

On February 25, 2011, BRL updated a JORC-compliant Resource estimate showing an increase of 7.17 million tonne in Measured and Indicated Resources at the Central and South Dunes for a combined total of 146 million tonnes at 4.89% Total Heavy Mineral (1% cut-off). The estimate contained mineral increases of 16% for each of rutile and ilmenite but a decrease of 3% for zircon. The net result is an implied mineral assemblage value per resource tonne that is 4% higher than previous resource estimates. 59% of the combined Resource is now in the "Measured" category. On May 13, 2011, BRL announced the completion of the EDFs which projected an estimated NPV of US\$395 million at a 10% discount rate, a mine life of 13 years and production planned to commence mid-2013. In July 2011, BRL announced that it has received confirmation of formal credit approval for a US\$170 million syndicated project finance facility. By September 2011, BRL has raised capital of A\$162.3 million through the share issues and rights offer. This combined with the approved project finance facility means that BRL has the requisite funds to proceed with the development of the Kwale project.

Pukaqaqa, Peru

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

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

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Braúna Project, Bahia, Brazil

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

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

The Braúna property has excellent infrastructure and good exploration potential, with 22 known kimberlites, of which Vaaldiam has tested nine, all of which contained diamonds. A Preliminary Assessment Report ("PA") has been completed on the Braúna 3 ("B3") kimberlite by Coffey Consultoria e Serviços ("Coffey") in April 2011. The conceptual open pit mine plan is based on a National Instrument 43-101 ("NI43-101") compliant Mineral Resource estimate prepared by A.C.A. Howe International Limited ("Howe") and a modified NI43-101 Mineral Resource prepared by Coffey as part of the PA. The conceptual plan calls for a total open pit diamond production of 573,000 carats based on the Coffey resource estimate, and 839,000 carats based on the Howe resource estimate. This excludes any potential below 200 metres.

On March 4, 2011, Vaaldiam entered into an the March Agreement with the existing joint venture partners whereby it would have increased its interest from 20% to a controlling interest of 51% in the Braúna project for a transaction consideration of approximately US\$6.5 million. A payment of approximately US\$0.9 million was made on signing. US\$1.5 million was scheduled for August 4, 2011 and the balance of approximately US\$4.1 million was required on June 4, 2012. Pursuant to the March Agreement, Vaaldiam acted as operator for the project and would have been responsible for the financing of a feasibility study and, if proven to be economically feasible, would have financed the building and development of a mine. Various milestones were agreed between Vaaldiam and the existing partners, and Vaaldiam's project development cost would have been repaid in full from the project's profits before distribution of the profits to the joint venture partners. Should Vaaldiam not meet the payment schedule or certain milestones by pre-determined deadlines, where the reason for such failure was within the reasonable control of Vaaldiam, and the default not rectified within 30 days, the partners would have had a right to buy back the 31% interest for the amount of the transaction consideration that was paid up to the buy-back date, and under certain circumstance, the right to purchase Vaaldiam's remaining 20% interest at fair value as determined by an independent third party. Should this have happened, Vaaldiam would have ceased to be operator and if the project was to be successfully developed other than by Vaaldiam, Vaaldiam's contribution to the project development cost would have been repaid out of the project's profits.

Under the terms of the March Agreement, US\$1.5 million would have become due to the partners on August 4, 2011. As market conditions for junior mining companies deteriorated, the Company did not expect that it would be able to obtain financing at a reasonable price or to realize the full value of its other assets to be able to continue funding the Braúna project, the Company elected not to make the August 4, 2011 payment and a renegotiated agreement was reached on September 30, 2011. Under the terms of the September Agreement, the Company agreed with its joint venture partners to terminate the March Agreement and to recover about US\$800,000 currently held in escrow by its joint venture partners. In exchange for terminating its liability for financing and developing Braúna, the Company will convert its equity interest in Braúna to a 1% Gross Sales Royalty on all diamond production from the property. The joint venture partners have now resumed the exploration and development program at Braúna. The Company will also maintain its rights to explore the Braúna property for gold.

Pursuant to the September Agreement, the Company would transfer the ownership of its subsidiary Oleander Financial Inc. ("OFI") to the joint venture partners. OFI holds the Company's investment in Lipari Mineração Ltda ("LML") which owns the mineral rights to Braúna. The implementation of the transfer is expected to be completed by the middle of November and the assets and liabilities related to the Braúna project have been reclassified as held for sale at September 30, 2011. The carrying value of assets held for sale was \$6,923,000 on the Company's books, with liabilities directly related to assets held for sale of the same amount. The Company recorded a loss of \$8,994,000 as a result of revaluing the net assets held for sale to fair value less costs to sell, of which, \$8,400,000 is attributable to the non-controlling interest.

Crypto Property

The Crypto deposit is a zinc-copper deposit with a high level of indium and recoverable amounts of gold and silver currently held by Lithic Resources Ltd. ("LTH"), a company listed on the TSX-Ventures Exchange. It lies in western Utah in the United States and has

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been subject to a delineation of a significant historical zinc resource and LTH is due to complete a pre-feasibility study on the project. Vaaldiam, through its wholly-owned subsidiary, VRL, holds a 1.5% Net Smelter Royalty ("NSR") interest on all production from the Crypto property. Vaaldiam will also be entitled to receive a one-time cash payment of \$1,000,000 upon LTH's securing financing to bring the Crypto property into production. In 2009, LTH has updated the resource estimates for the Crypto deposit and substantially increased the size of its deposit. In 2010, a preliminary economic assessment was completed and an extensive drilling program was recommended. The project is fully permitted and bonded.

TSR Process

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

INVESTMENTS**Flemish Gold Corp.**

Flemish is an exploration company focusing on sub-Saharan Africa. Its present focus is on four major exploration properties in Burundi covering approximately 4,300 km². It has completed drilling at three locations at the Muhwazi property. About 3,000 drill samples are either in assay or en route for assaying. In addition, it has collected some 3,000 termite mound samples and over 1,000 stream sediment samples, many of which yielded visible gold when panned. A preliminary resource estimate and a subsequent NI 43-101 report will be prepared on the Masaka 1 gold deposit upon further drilling and receipt of all assays pending.

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

As at September 30, 2011, the carrying value of Flemish on the Company's books is \$2,447,000. During the quarter ended September 30, 2011, \$521,000 was recorded as equity losses and \$34,000 was recorded as a gain on dilution.

Freegold Ventures Ltd.

Freegold is a TSX listed company focused on the exploration of gold projects in Alaska. In addition to the Golden Summit Gold Project ("Golden Summit"), Freegold holds a 100% lease interest in the Rob Gold Project near the Pogo Gold Mine in the Goodpaster Mining District of Alaska and has an exploration agreement with option to lease the Vinasale Gold project in central Alaska. In June, Freegold announced that it intersected 166 metres of gold grading 0.81 grams per tonne at its Golden Summit property. In August, it announced, amongst other positive results from Golden Summit, a gold intersection of 149 metres grading 1.03 grams per tonne. Freegold continues to explore actively at all three properties.

As at September 30, 2011, the Company held 2,824,128 common shares in Freegold, which are held as an available-for-sale security, at a carrying value of \$1,977,000. At the same time, the Company has a loan receivable from Freegold in the amount of \$855,000 bearing an annual interest rate of 6% payable quarterly maturing October 1, 2011. On September 30, 2011, the Company agreed to restructure the repayment schedule. Under the restructured terms, Freegold paid Vaaldiam \$250,000 on October 1, 2011 and will pay Vaaldiam the balance on November 30, 2011. The portion outstanding will continue to bear interest at an annual rate of 6%.

Terraco Gold Corp.

As at January 1, 2011, Vaaldiam held 1,000,000 common shares in Western Standard Metals Limited ("Western Standard") (TSX-V: WSM, Frankfurt: ND7A). On November 1, 2010, Terraco Gold Corp. ("Terraco") (TSX-V: TEN) and Western Standard announced that

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they have entered into a binding letter agreement providing for Terraco to acquire all of the outstanding securities of Western Standard in an all share transaction, by way of a plan of arrangement. Pursuant to the plan of arrangement, which was completed on January 24, 2011, Western Standard's shareholders received 0.75 common shares of Terraco for each Western Standard common shares held. As a result of the merger, Terraco now holds a number of advanced and early-stage gold-silver projects in Idaho and Nevada, USA.

In May 2011, Vaaldiam disposed of all shares in Terraco for gross proceeds of approximately \$230,000 recognizing a realized loss in the amount of \$161,000. As at September 30, 2011, Vaaldiam does not have any holding in Terraco.

SUMMARY OF QUARTERLY RESULTS

(\$'000s except for per share and capitalization)	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009 ⁽¹⁾
Net (profit)/loss	1,161	855	7,641	6,210	(672)	(711)	2,146	30
Net (profit)/loss per share	0.02	0.01	0.11	0.09	(0.01)	(0.01)	0.04	0.00
Total assets	22,322	31,970	32,222	25,868	33,147	32,918	34,314	22,719
Working capital (deficit)	3,954	(1,811)	3,675	7,619	9,524	7,820	10,095	17,736
Mineral properties and deferred exploration and evaluation expenditures	1,758	15,874	15,395	4,828	10,364	12,471	8,364	-
Share capital:								
Outstanding (000's)	71,635	71,633	71,633	71,627	71,627	71,388	71,388	48,226
Warrants (000's)	6,094	6,094	6,094	6,094	9,844	9,844	9,935	10,329
Options (000's)	4,997	4,997	4,747	4,807	4,807	4,607	4,617	4,245

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

In March 2010, the Company acquired Vaaldiam Resources Ltd. ("VRL") and began pre-production work at Duas Barras, one of VRL's mines. In April 2011, following several months of lower than expected grades and higher than expected costs, the Company decided to suspend work at Duas Barras. The trend of the net (profit)/loss for the last 8 quarters is impacted by impairment losses recorded in respect of assets held for sale in Q3-2011; impairment losses in respect of the Duas Barras property in Q1-2011 and Q4-2010; the sale of Kwale in Q3-2010; reversal of impairment losses recorded on the Kwale property in Q2 2010; acquisition costs incurred in acquiring VRL in Q1-2010; and the sale of the Pukaqaqa property in Q1-2010.

FINANCIAL REVIEW

During the three and nine months ended September 30, 2011, a loss of \$1,161,000 and \$9,657,000 or \$0.02 and \$0.13 per share was recorded compared to income of \$672,000 and a loss of \$763,000 or income of \$0.01 per share and loss of \$0.01 per share in the corresponding periods of the prior year.

Corporate and general

(\$'000s)	Q3 2011	Q3 2010	Change	% Change
Payroll	472	435	37	8%
Professional fees and services	212	174	38	22%
Shareholder costs and promotion	19	91	(72)	(79%)
Travel	13	52	(39)	(75%)
Other	130	269	(139)	(52%)
Financial charges and provisions	70	9	61	678%
Total	916	1,030	(114)	(11%)

Corporate payroll increased moderately in Q3-2011 compared to Q3-2010 as a result of the consolidation of LML on acquisition of control in Q2-2011. Professional fees and services increased in Q3-2011 compared to Q3-2010 due to additional legal, tax and accounting fees incurred in Q3-2011 with respect to the LML transaction. Shareholder costs and promotion decreased in Q3-2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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compared to Q3-2010 due to additional costs related to the acquisition of VRL in 2010. Other corporate costs decreased in Q3-2011 compared to Q3-2010 due to the reduction in office space and other efficiencies realized subsequent to the acquisition of VRL. Financial charges and provisions for Q3-2011 are related to the provision of contingencies and penalties/interest in Brazil.

Investments

(\$'000s)	Q3 2011	Q3 2010	Change	% Change
Equity loss on investments in associated companies	521	364	157	43%
Gain on dilution of investment in associated company	(34)	(1,182)	1148	97%

Equity loss on investments in associated companies increased in Q3-2011 compared to Q3-2010 due mainly to the increased exploration activities in Flemish. In Q3-2011 the Company did not participate in Flemish's private placements and its ownership percentage was diluted from 18.55% to 18.47% resulting in a gain on dilution of \$34,000. In Q3-2010 the Company did not participate in Flemish's private placements and its ownership percentage was diluted from 27.75% to 22.56% at September 30, 2010 resulting in a gain of \$1,182,000.

Assets held for sale

(\$'000s)	Q3 2011	Q3 2010	Change	% Change
Impairment of assets held for sale	7,700	-	7,700	n/a%

In Q3-2011, the Company recorded a loss of \$8,994,000 as a result of revaluing the assets and liabilities related to the Braúna property, of which \$8,400,000 is attributable to the non-controlling interest. In Q3-2011, the Company also recorded a reversal of impairment in Duas Barras in the amount of \$1,294,000 as an agreement to sell the property was reached in November 2011.

Other

(\$'000s)	Q3 2011	Q3 2010	Change	% Change
Other (income) expenses	(105)	150	(255)	(170%)
Foreign exchange loss	394	(796)	1,190	(149%)
Interest and other income	(58)	(675)	617	(91%)
Interest expense	49	9	40	444%

The decrease in other expenses in Q3-2011 compared with that recorded in Q3-2010 was due mainly to the reversal of provisions for Brazilian taxes and contributions recorded in Q3-2011. The decrease in interest and other income in Q3-2011 compared to Q3-2010 was due mainly to the settlement payment from Flemish of \$506,000 received in Q3-2010. The increase in interest expense in Q3-2011 compared with that recorded in Q3-2010 was due to interest recorded on the loan payable to the JV partners in Q3-2011.

FINANCIAL, LIQUIDITY AND CAPITAL RESOURCES

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

(\$000's)	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash and cash equivalents, end of the period	3,104	11,186
Working capital, end of the period	3,954	9,524
Cash used in operating activities	(3,984)	(7,084)
Cash provided by (used in) investing activities	(421)	17,940
Cash used in financing activities	(891)	(718)

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Liquidity

At September 30, 2011, Vaaldiam had working capital of \$3,954,000, compared with \$9,254,000 at September 30, 2010. During the nine months ended September 30, 2011, Vaaldiam used cash of \$3,984,000 in operating activities compared with \$7,084,000 in 2010. The additional cash used in operating activities in 2010 was due mainly to transaction costs and severance payments of \$1,458,000 along with the payment of outstanding amounts acquired through the acquisition of VRL. Cash used in investing activities for the nine months ended September 30, 2011 consisted mainly of expenditures on the Braúna project offset by the proceeds on the sale of the investment in Terraco and proceeds on the sale of equipment, while cash provided in 2010 was due to the maturity of \$10,057,000 of short-term investments, proceeds of \$7,250,000 on the disposal of the Pukaqaqa project and proceeds of \$3,053,000 on the disposal of the Kwale project, offset by expenditures on the Duas Barras project and the acquisition of VRL. During the nine months ended September 30, 2011, \$891,000 was paid as part of the consideration for increasing Vaaldiam's interest in the Braúna project, while in 2010 the Company repaid a line of credit in the amount of \$718,000.

At the date of acquisition of VRL, one of the Brazilian subsidiaries of VRL, Mineração Montes Claros Ltda. ("MMC") was under an extrajudicial recovery plan (the "Plan"), approved by the creditors representing 68% of the debts then owing by MMC. On February 2, 2009, an application was made to the Civil Court in Brazil for the approval of the Plan, which would bind all creditors of MMC. Under the Plan, all action of the creditors against MMC would be stayed and MMC would commit to allocating a portion of the proceeds from the sale of certain major assets as well as from financing to the repayment of such creditors. As at the date of the VRL acquisition, the Plan was still awaiting final court approval. Following the VRL acquisition, Vaaldiam negotiated for the settlement of the amounts due and obtained release from the creditors in respect of all negotiated and paid amounts. As at September 30, 2011, approximately \$6,000, representing less than 1% of the original outstanding amounts, remained unpaid, due mainly to the fact that the creditors did not respond to our repeated contacts for reasons ranging from them being out of business, or had insufficient contact information. On February 22, 2011, MMC, through its counsel in Brazil, had petitioned the courts to have the Plan closed.

Capital Resources

As at September 30, 2011, Vaaldiam had cash of \$3,104,000. Vaaldiam currently has no consistent source of income and no immediate cash flow from its operations. Vaaldiam receives cash for use in operations from issuing common shares, investment income and occasional sales of selected assets. Vaaldiam has been successful in accessing the equity markets in the past, however, there is no guarantee that this will continue to be available. As the capital market has been largely closed to junior resource companies in the second and third quarter, Vaaldiam's current strategy is to preserve cash until capital is available again. The Company has engaged Raymond James Ltd. as its financial advisor to identify and analyse the strategic alternatives available to the Company with a view to identifying opportunities for one or more transactions which will recognize the full value of the Company and/or its assets.

A potential source of additional capital would be the exercise of options. As at November 8, 2011, Vaaldiam has issued and outstanding options as follows:

No. of Options	Expiry Date	Exercise Price	Potential Proceeds
900,000	February 22, 2012	\$0.90	810,000
301,397	May 22, 2012	\$1.25	376,746
694,334	December 27, 2012	\$0.75	520,751
633,250	May 29, 2013	\$0.65	411,612
384,500	December 3, 2013	\$0.25	96,125
100,000	January 1, 2014	\$0.25	25,000
620,000	February 18, 2014	\$0.50	310,000
819,334	September 10, 2014	\$0.35	286,767
93,724	March 23, 2015	\$0.39	36,552
200,000	August 19, 2015	\$0.275	55,000
250,000	April 8, 2016	\$0.26	65,000
4,996,539			\$2,993,553

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An additional potential source of capital could be the exercise of warrants. As at November 8, 2011, the Company has issued and outstanding warrants as follows:

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

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

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

(\$000's)	September 30, 2011 Payments Due by Period			
	Within 1 year	1 to 3 years	3 to 5 years	Total
Operating leases	153	233	29	415
Provisions for decommissioning liabilities ⁽¹⁾	-	612	-	612
Total	153	845	29	1,027

⁽¹⁾ Provisions for decommissioning liabilities represent the undiscounted future payments for the expected costs of environmental rehabilitation.

OFF-BALANCE SHEET ARRANGEMENTS

Vaaldiam has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

- At September 30, 2011, the Company held a 18.47% ownership interest in Flemish. Certain directors, officers and employees of the Company currently hold 14,448,001 (25.12%) common shares of Flemish. The main holders of the common shares are Jean-Charles Potvin, the non-executive Chairman of Vaaldiam, and his family, who hold 11,093,001 common shares, Roland Bertin, a non-executive director, and a company controlled by him, who hold 1,950,000 common shares, and Robert Jackson, the President and CEO of Vaaldiam, who holds 1,300,000 common shares. Mr. Potvin, as Chairman and CEO of Flemish, received an annual salary of \$250,000 from Flemish. Mr. Jackson is also a director of Flemish and receives no compensation from Flemish. At September 30, 2011, Mr. Potvin and Mr. Jackson hold 980,000 and 480,000 stock options, respectively, at exercise prices of between \$0.50 and \$0.75 per option.
- The Company charges Flemish for office space and other expenses. During the nine months ended September 30, 2011, the Company charged Flemish \$17,600 for office space and expenses. No other services are provided and charged for by the Company.
- In June 2010, Eric Roblin, a partner with Fogler Rubinoff, LLP, was elected to the board of directors of the Company. As legal counsel for the Company, Mr. Roblin continues to bill the Company for his work as legal counsel. During the nine months ended September 30, 2011, the Company was charged approximately \$97,000 for legal services provided by Mr. Roblin and Fogler Rubinoff, LLP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTERNAL CONTROL OVER FINANCIAL REPORTING**Management's Responsibility for Consolidated Financial Statements**

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

Internal Control over Financial Reporting

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

Disclosure Controls and Procedure

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

Conclusion regarding ICFR and DC&P

Management has concluded that as of September 30, 2011, the DC&P were effectively designed to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries and joint ventures would be made known to them by others within those entities, particularly during the period in which this report was being prepared. In addition, management has concluded that disclosure controls and procedures were designed effectively to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Management, including the CEO and CFO, has certified that internal controls over financial reporting were effectively designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS.

Reporting Changes in ICFR

The conversion from Canadian GAAP to IFRS has an impact on the procedures used in presenting financial results. Management has evaluated the impact of the conversion on our accounting and financial reporting systems and updated the requisite systems to enable the reporting of the transition to IFRS and for future periods to be reported under IFRS. Other than these, there were no changes in the Company's internal controls over financial reporting during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the Company's financial condition and financial performance are based upon accounting policies and estimates included in the unaudited interim condensed consolidated financial statements, which have been prepared in accordance with IFRS. These policies and estimates may be different in certain respects from those reported in the 2010 annual financial statements which were prepared in accordance with the Canadian GAAP. In the interim condensed consolidated financial statements for the quarter ended September 30, 2011, the Company's accounting policies and estimates were unchanged. See note 3 of the financial statement for a description.

UNCERTAINTIES AND RISK FACTORS

The mining business is inherently risky in nature. Exploration activities rely on professional judgments and statistically based tests and calculations and often yield few rewarding results. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and operations may be subject to risks including labour disputes, environmental hazards, safety issues,

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geological issues, weather conditions, and changing regulatory requirements as examples. Vaaldiam is subject to competitive risks as its ability to finance its activities and generate profitable operations or proceeds from disposal of assets are subject to the world price for diamonds, gold and precious metals and the economic forces that influence capital markets. As a result the securities of Vaaldiam must be considered speculative. A prospective investor in Vaaldiam should carefully consider the following factors:

Exploration and Development

Exploration for diamond, gold, copper and other minerals is highly speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that exploration efforts will result in the discovery of mineralization or that any mineralization discovered will result in the definition of reserves. If reserves are developed, it may take a number of years and substantial expenditures from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. No assurance can be given that exploration programs will result in the definition of reserves or that reserves may be economically mined. There is also no assurance that the estimated operating and capital expenditures for any project will not be higher than originally estimated.

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

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

Operating Hazards and Risks

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

Environmental Factors

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

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

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions. There can be no assurance that

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Vaaldiam will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

Title to Assets

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

Financing Risks

Vaaldiam has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development work or to fulfill its obligations under any applicable agreements. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development plans.

Commodity Prices

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

Foreign Currency Risks

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

Governmental Regulation

Exploration, development and mining of the properties will be affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law; (iii) restrictions on production; price controls; and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Compliance with such laws and regulations increases the costs of planning, designing, developing, constructing, operating and closing mines and other facilities. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the Company would not proceed with or would postpone the development and operation of a mine or mines.

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

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

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

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No Dividends

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

Dependence on Key Employees

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

Joint Ventures

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

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

Any of the foregoing may have a material adverse effect on the financial performance or financial condition of the Company.

Conflicts Of Interest

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

Competition

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

Share Price Fluctuations

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

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

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OUTSTANDING SHARE DATA

As at November 8, 2011, the following were the undiluted and fully diluted common shares outstanding:

Common shares outstanding as at November 8, 2011	71,634,711
Shares issuable on exercise of options	4,996,539
Shares issuable on exercise of warrants	6,093,769
Fully diluted shares outstanding as at November 8, 2011	82,725,019

GENERAL

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

INDEMNITIES

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

OTHER INFORMATION

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