



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2006**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Vaaldiam Resources Ltd. discloses that its auditors have not reviewed the unaudited consolidated financial statements for the quarter ended March 31, 2006.

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VAALDIAM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

| | <u>March 31, 2006</u> | <u>December 31, 2005</u> |
|---|-----------------------|--------------------------|
| | <u>Unaudited</u> | <u>Audited</u> |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Notes 8 and 9) | \$ 17,892,952 | \$ 8,149,458 |
| Sundry receivables and prepayments | 328,647 | 134,451 |
| | 18,221,599 | 8,283,909 |
| Property and equipment | 361,786 | 369,604 |
| Exploration properties (Note 7) | 5,292,096 | 4,940,049 |
| | \$ 23,875,481 | \$ 13,593,562 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 658,123 | \$ 316,914 |
| SHAREHOLDERS' EQUITY | | |
| Common shares (Notes 4 and 5(a)) | 24,828,930 | 13,315,518 |
| Common share purchase warrants (Note 5(b)) | 632,107 | 1,147,751 |
| Stock options (Note 5(c)) | 1,661,379 | 703,626 |
| Deficit | (3,905,058) | (1,890,247) |
| | 23,217,358 | 13,276,648 |
| | \$ 23,875,481 | \$ 13,593,562 |

Basis of Presentation (Note 2)

Subsequent Events (Note 9)

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
FOR THE QUARTERS ENDED MARCH 31 (UNAUDITED)**

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|
| Revenue | \$ - | \$ - |
| Expenses | | |
| Corporate and general | (425,853) | (195,167) |
| Stock-based compensation (Note 5 (c)) | (1,185,115) | (38,682) |
| Write-off of exploration properties (Note 7) | (453,660) | (140,886) |
| Amortization | (38,781) | (1,175) |
| Foreign exchange gain/(loss) | 1,072 | (1,076) |
| Total expenses (Note 3) | (2,102,337) | (376,986) |
| Less: Interest income | 87,526 | 7,786 |
| Net loss | (2,014,811) | \$ (369,200) |
| Deficit, beginning of period | (1,890,247) | (882,996) |
| Deficit, end of period | <u>\$ (3,905,058)</u> | <u>\$ (1,252,196)</u> |
| Basic and diluted loss per share | <u>\$ (0.03)</u> | <u>\$ (0.01)</u> |

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31 (UNAUDITED)**

| | <u>2006</u> | <u>2005</u> |
|---|----------------|--------------|
| Operating Activities | | |
| Net loss for the period | \$ (2,014,811) | \$ (369,200) |
| Amortization | 38,781 | 1,175 |
| Write-off of exploration properties (Note 7) | 453,660 | 140,886 |
| Stock-based compensation (Note 5) | 1,185,115 | 38,682 |
| | (337,255) | (188,457) |
| Change in non-cash components of working capital | | |
| Sundry receivables and prepayments | (194,196) | (65,992) |
| Purchase of diamond inventory | - | (43,724) |
| Accounts payable and accrued liabilities | 341,209 | (182,886) |
| | 147,013 | (292,602) |
| | (190,242) | (481,059) |
| Investing Activities | | |
| Purchase of property and equipment | (30,964) | (51,254) |
| Mineral exploration expenditures (Note 7) | (805,707) | (381,401) |
| | (836,671) | (432,655) |
| Financing Activity | | |
| Net proceeds from issue of capital stock (Note 5) | 10,770,407 | 486,388 |
| Increase (decrease) in cash and cash equivalents | 9,743,494 | (427,326) |
| Cash and cash equivalents, beginning of period | 8,149,458 | 2,245,508 |
| Cash and cash equivalents, end of period | \$ 17,892,952 | \$ 1,818,182 |

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2006

1. NATURE OF OPERATIONS

Vaaldiam Resources Ltd. (a development stage entity) (the “Company”) is a publicly held company, which is incorporated under the Canada Business Corporations Act. The Company is engaged in the investigation, acquisition, exploration and development of mineral properties. Substantially, all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned revenue and is considered to be in the development stage.

2. BASIS OF PRESENTATION

The results for three months ended March 31, 2006 are stated utilizing the same accounting policies as those used to prepare the most recent annual audited consolidated financial statements. These financial statements for the three months ended March 31, 2006 should be read in conjunction with the Company’s annual audited consolidated financial statements for the years ended December 31, 2005 and 2004. The consolidated financial statements include the accounts of the Company and its 99.999% Brazil incorporated subsidiary Mineração Paraguaçu Indústria e Comércio Ltda. (“MPIC”) and its 99.9% owned subsidiary Mineração Montes Claros Ltda.

3. ANALYSIS OF EXPENSES

During the quarter ended March 31, 2006, the Company’s expenses amounted to \$2,102,337 compared to \$376,986 for the prior year.

| | Quarters Ended March 31 | |
|------------------------------|--------------------------------|--------------------|
| | <u>2006</u> | <u>2005</u> |
| Stock based compensation | \$ 1,185,115 | \$ 38,682 |
| TSX listing expenses | 120,322 | - |
| Administration | 97,172 | 44,500 |
| Investor relations | 73,677 | 45,407 |
| General travel | 3,062 | 5,093 |
| Audit related fees | 11,200 | 10,500 |
| Group health insurance | 8,419 | 6,000 |
| General legal fees | 9,366 | 16,852 |
| Stationery and printing | 6,761 | 12,072 |
| Telephone and fax | 5,058 | 2,279 |
| Sundry expenses | 16,348 | 13,020 |
| Directors’ fees | 13,500 | 13,500 |
| Registrar’s fees | 6,764 | 3,142 |
| Annual meeting expenses | - | 767 |
| Office rent | 14,883 | 12,929 |
| Filing fees | 14,580 | 8,287 |
| Office insurance | 4,598 | 819 |
| Amortization | 38,781 | 1,175 |
| Capital tax | 9,100 | - |
| Foreign exchange (gain) loss | (1,072) | 1,076 |

| | | |
|-----------------------------------|--------------|------------|
| Tax on unspent flow-through funds | 11,043 | - |
| Property write down | 453,660 | 140,886 |
| | \$ 2,102,337 | \$ 376,986 |

4. RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows for the three months ended March 31, 2006:

Management consulting fees paid to a company controlled by the President and Chief Executive Officer were \$37,500. Of this amount, \$18,750 was charged to mineral exploration properties while \$18,750 was charged to administration. Non-executive directors fees of \$13,500 were paid during the recent quarter. During the quarter ended March 31, 2006, Vaaldiam's Brazilian subsidiary MPIC paid approximately \$12,500 for accounting and administration services to a major shareholder.

During September 2004, the Company granted initially interest free loans totalling \$212,790 to four directors, which loans were used to acquire 531,975 units of the Company as part of a private placement. Of these loans, \$112,790 were repaid during the quarter ended March 31, 2006 including interest thereon calculated at the Canadian prime rate plus 3% from January 1, 2006. The remaining loan of \$100,000 is repayable on or before June 30, 2006 and bears interest at Canadian prime rate plus 3% since January 1, 2006. During September 2005, the Company granted an initially interest free loan of \$20,494 to a director and officer which was used to acquire 40,987 common shares of the Company from the exercise of a warrant. This loan was repaid during the quarter ended March 31, 2006 with interest thereon calculated at the Canadian prime rate plus 3% from January 1, 2006 until repaid.

5. CAPITAL STOCK

(a) Common Shares Issued

| | <u>Shares</u> | <u>Amount</u> |
|---|---------------|---------------|
| Balance, January 1, 2006 | 65,819,002 | \$ 13,315,518 |
| Warrants exercised (i) | 4,387,408 | 3,336,741 |
| Allocated from warrants | - | 792,977 |
| Repayment of notes receivable | - | 133,284 |
| Private placements (net of share issue costs of \$994,201 including compensation options of \$277,333 (ii)) | 8,253,969 | 6,505,799 |
| Exercise of options (iii) | 1,095,000 | 517,250 |
| Allocated from options | - | 227,361 |
| Balance, March 31, 2006 | 79,555,379 | \$ 24,828,930 |

- (i) During the quarter ended March 31, 2006 the following warrants were exercised:

| <u>Date of Issue</u> | <u>Warrants Exercised</u> | <u>Exercise Price</u> | <u>Proceeds</u> |
|----------------------|---------------------------|-----------------------|-----------------|
| Sept. 15, 2004 | 301,602 | \$0.40 | \$ 120,641 |
| June 16, 2005 | 3,823,083 | 0.80 | 3,058,466 |
| June 16, 2005 | 262,723 | 0.60 | 157,634 |
| | 4,387,408 | | \$ 3,336,741 |

- (ii) On February 9, 2006, the Company closed a bought deal private placement offering of non Flow-Through and Flow-Through Special Warrants for aggregate gross proceeds of \$7,500,000. The offering, which was comprised of 7,777,778 Common Share Special Warrants issued at a price of \$0.90 per Common Share Special Warrant and 476,191 Flow-Through Special Warrants issued at a price of \$1.05 per Flow-Through Special Warrant, was fully subscribed including the underwriters' over-allotment option.

Each Common Share Special Warrant was exercisable into one Common Share of the Company at no additional cost and each Flow-Through Special Warrant was exercisable into one Flow-Through Common Share of the Company at no additional cost. The Special Warrants were exercisable by the holders thereof at any time and were to be automatically exercised at 5:00 p.m. EST on the earlier of the following dates: (i) the third business day after a receipt was issued by the last of the securities regulatory authorities in each of the jurisdictions in Canada in which purchasers of the Special Warrants are resident, for a final prospectus qualifying the Common Shares and Flow-Through Common Shares to be issued upon exercise of the Special Warrants; and (ii) the date which was four months and one day after the closing date. Receipt of the final prospectus occurred on March 24, 2006 following which all Special Warrants were automatically exercised into Common Shares.

- (iii) During the three months ended March 31, 2006, the following options were exercised:

| <u>Options Exercised</u> | <u>Exercise Price</u> | <u>Proceeds</u> |
|--------------------------|-----------------------|-----------------|
| 25,000 | \$0.29 | \$ 7,250 |
| 125,000 | \$0.40 | 50,000 |
| 250,000 | \$0.45 | 112,500 |
| 695,000 | \$0.50 | 347,500 |
| 1,095,000 | | \$ 517,250 |

(b) Common Share Purchase Warrants

| | <u>Warrants</u> | <u>Amounts</u> |
|--------------------------------|-----------------|----------------|
| Balance, January 1, 2006 | 6,156,381 | \$ 1,147,751 |
| Issued in respect of financing | 495,238 | 277,333 |
| Exercise of purchase warrants | (4,387,408) | (792,977) |
| | <hr/> | |
| Balance, March 31, 2006 | 2,264,211 | \$ 632,107 |
| | <hr/> | |

The following is a summary of the unexercised warrants as at March 31, 2006:

| <u>Number Outstanding</u> | <u>Date of Issue</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|---------------------------|----------------------|-----------------------|------------------------------|
| 1,386,250 | June 16, 2005 | \$ 0.80 | April 3, 2006 ⁽¹⁾ |
| 382,723 | June 16, 2005 | 0.60 | June 16, 2006 |
| 495,238 | February 9, 2006 | 0.90 | February 9, 2007 |
| <hr/> | | | |
| 2,264,211 | | | |
| <hr/> <hr/> | | | |

- (i) These warrants were originally set to expire on December 16, 2006, however, these warrants contained a provision which permitted the expiry date to be accelerated in the event that the closing price on the Company's shares on the TSX Venture Exchange remained above \$1.00 for 21 consecutive trading days. This condition was met on February 24, 2006 and notice of the acceleration of expiry date to April 3, 2006 was provided to all warrant holders.

(c) Stock Options

| | <u>Number</u> | <u>Weighted Av. Price</u> |
|-------------------------------------|---------------|---------------------------|
| Options outstanding January 1, 2006 | 3,388,750 | \$ 0.49 |
| Issued | 2,105,000 | 0.75 |
| Exercised | (1,095,000) | 0.47 |
| | <hr/> | |
| Options outstanding March 31, 2006 | 4,398,750 | \$ 0.62 |
| | <hr/> <hr/> | |

| <u>Exercise Price</u> | <u>Outstanding March 31, 2006</u> | <u>Weighted Av. Life (Years)</u> |
|-----------------------|---------------------------------------|--------------------------------------|
| \$ 0.29 | 18,750 | 0.006 |
| 0.50 | 1,380,000 | 0.829 |
| 0.50 | 150,000 | 0.099 |
| 0.45 | 550,000 | 0.435 |
| 0.40 | 40,000 | 0.034 |
| 0.50 | 55,000 | 0.051 |
| 0.85 | 100,000 | 0.099 |
| 0.75 | 2,105,000 | 2.297 |
| | <hr/> | |
| | 4,398,750 | 3.850 |
| | <hr/> <hr/> | |

During the three months ended March 31, 2006, the Company recognized a stock based compensation expense of \$1,185,115 utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

| | <u>March 31, 2006</u> |
|---------------------------------|-----------------------|
| Risk-free interest rate | 3.88% |
| Expected dividend yield | 0.00% |
| Expected share price volatility | 70.00% |
| Expected life of options | 5 years |

6. SUMMARY OF SECURITIES AS AT MARCH 31, 2006

| | |
|---|--------------------------|
| Common shares outstanding | 79,555,379 |
| Unexercised options to acquire common shares | 4,398,750 |
| Unexercised warrants to acquire common shares | <u>2,264,211</u> |
| Fully diluted shares outstanding | <u><u>86,218,340</u></u> |

7. EXPLORATION PROPERTIES

| <u>Property</u> | <u>Balance</u> <u>Jan. 1, 2006</u> | <u>Additions</u> | <u>Balance</u> <u>March 31, 2006</u> |
|--|---------------------------------------|--------------------------|---|
| Pimenta Bueno - Brazil | \$ 2,315,736 | \$ 85,767 | \$ 2,401,503 |
| Brauna - Brazil | 474,316 | 291,541 | 765,857 |
| Duas Barras - Brazil | 1,363,914 | 375,461 | 1,739,375 |
| Haute Kotto – Central African Republic | 340,473 | 44,888 | 385,361 |
| Hotish - Canada | 445,610 | (445,610) ⁽¹⁾ | - |
| | <u>\$ 4,940,049</u> | <u>\$ 352,047</u> | <u>\$ 5,292,096</u> |

⁽¹⁾ Property written off includes an additional \$8,050 of exploration expenditures incurred during the three months ended March 31, 2006.

8. FLOW-THROUGH SHARES AND COMMITMENTS

As at March 31, 2006, the Company was obligated to incur \$1,323,866 in eligible Canadian Exploration Expenses prior to December 31, 2006 and \$500,001 prior to December 31, 2007.

9. SUBSEQUENT EVENTS

Between April 1, 2006 and May 11, 2006, 1,768,973 warrants and 75,000 options were exercised, providing an additional \$1,338,634 and \$36,250 respectively to the Company's treasury as a result of which on May 11, 2006 the issued and outstanding shares of the Company were 81,399,352.