

## Management's Discussion and Analysis

*Readers of the following Management's Discussion and Analysis should refer to the Company's audited consolidated financial statements for the years ended December 31, 2006 and 2005 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 22, 2007. Additional information relevant to the Company's activities, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://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 exploration and mine development in Brazil and to a lesser extent in Canada. The Company's vision is to become a significant producer of high quality diamonds, and a leader in the diamond exploration industry.

Vaaldiam is currently developing three advanced-stage diamond properties in Brazil, and one in Canada. In Brazil, Rio Tinto Desenvolvidos Mineraiis Ltda. ("Rio Tinto") is the operator of a joint venture exploration program on the Pimenta Bueno property in the state of Rondônia, where 38 kimberlite pipes and 3 kimberlite dyke and/or sill systems have been discovered. Exploration sampling indicates that approximately 50% of the kimberlites discovered on the Pimenta Bueno property are diamond-bearing.

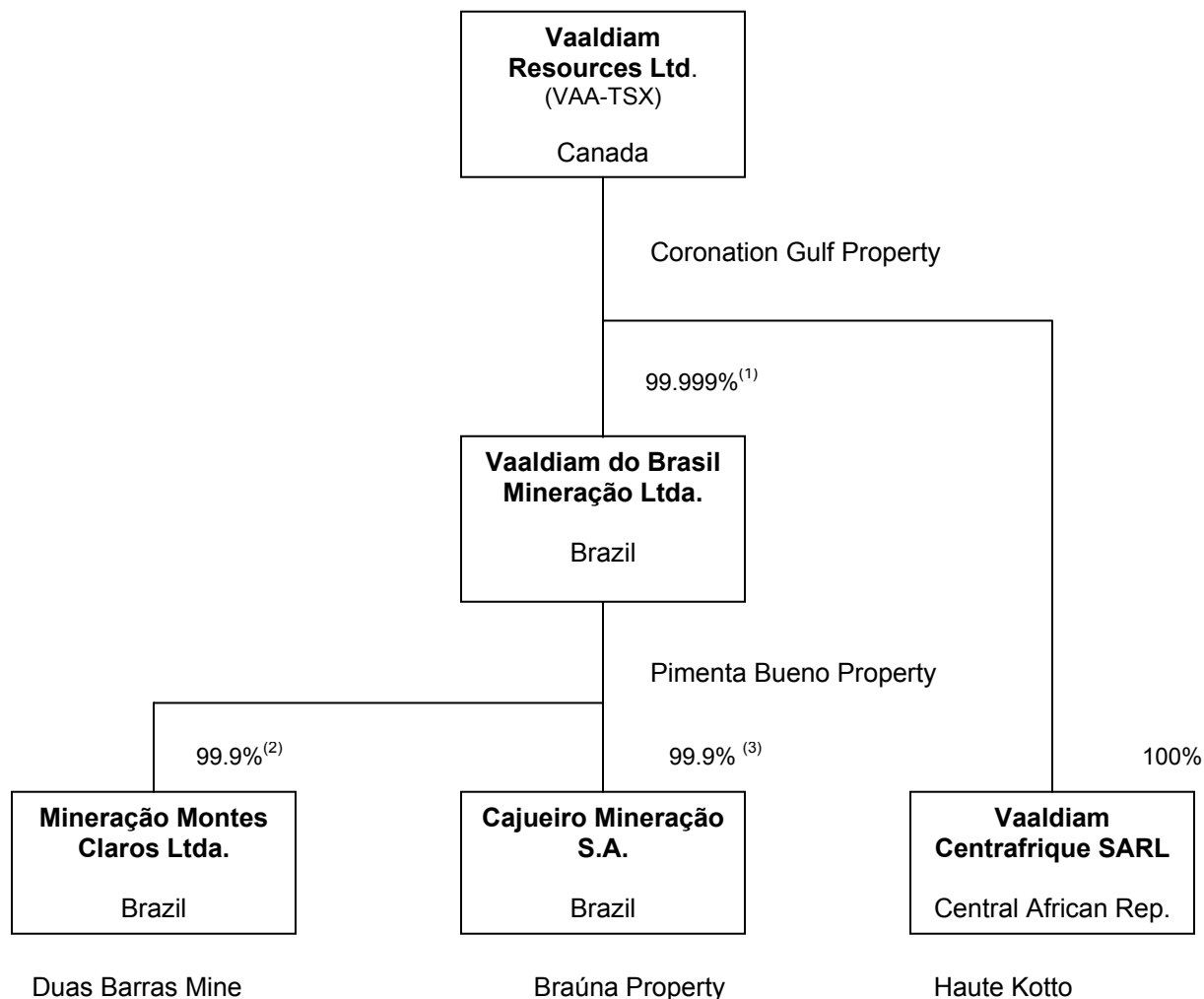
In the state of Minas Gerais, the construction of Vaaldiam's 100%-owned Duas Barras Mine is expected to be completed during Q1-2007. Annual production from the Duas Barras Mine is expected to start at 38,000 carats, increasing to 50,000 carats during the second year of operation.

On the Braúna property in the state of Bahia, Vaaldiam is completing a mini-bulk sampling program on two of the four kimberlite pipes discovered to date on the 100%-owned property. Initial results from the mini-bulk sampling program have been encouraging, and appear to support an expansion of the bulk sampling program.

In Canada, Vaaldiam is operating a joint venture exploration program with Ashton Mining of Canada Inc. ("Ashton") on their Coronation Gulf diamond property in Nunavut. Ashton's Coronation Gulf property encompasses the three hectare Artemisia kimberlite pipe, one of five diamondiferous kimberlite occurrences situated on the property. In August 2006, Vaaldiam extracted a 100 tonne mini-bulk sample from the surface of the Artemisia pipe, to evaluate the diamond distribution within pipe. Processing of the mini-bulk sample is being completed by SGS Lakefield Laboratories in Ontario, and results are expected in Q2-2007.

## Operations

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



(1) Remaining 0.001% owned by MSP Participações S.A.

(2) Remaining 0.1% owned by José Fernando Tonoli.

(3) As of March 1, 2007, the previously 40% owned by Majescor Resources Inc., a Canadian publicly listed corporation, was acquired by Vaaldiam Resources Ltd. and will be transferred to Vaaldiam do Brasil Mineração Ltda. for an exchange of 100 shares in Vaaldiam do Brasil Mineração Ltda. A nominal percentage will be held by a second shareholder to comply with Brazilian corporate laws.

### Pimenta Bueno Property, Rondônia, Brazil

During 2006, Vaaldiam's joint venture partner Rio Tinto, continued to advance the development of the 247,085 hectare Pimenta Bueno property through an aggressive exploration program consisting of drilling and mini-bulk sampling. Rio Tinto assumed the position of operator of the project in June 2005 following the exercise of an option that allowed Rio Tinto to earn a 51% interest in the property in accordance with the terms of an agreement signed with Vaaldiam in November 2003. Vaaldiam granted Rio Tinto this option in return for all of Rio Tinto's exploration

data, valued at approximately US\$4,000,000. The agreement provided Rio Tinto with an option to earn a 51% interest in either or both of the Northern and Southern Blocks comprising the property by spending a total of US\$12,500,000 on exploration over a three year period, US\$5,000,000 on the Southern Block and US\$7,500,000 on the Northern Block. The Southern Block is comprised of approximately 207,085 hectares while the Northern Block covers approximately 40,000 hectares. Since exercising their option, Rio Tinto has expended approximately US\$5,841,965 for its own account on exploration of the Southern Block of the property to December 31, 2006, as a result of which Rio Tinto now owns 51% of the Southern Block with Vaaldiam owning 49%. Vaaldiam's ownership of the Northern Block remains at 100%. Substantially all of Rio Tinto's exploration expenditures to date have been on the Southern Block.

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

Rio Tinto assumed the position of operator of the project in June 2005 and continued with the delineation drilling program started by Vaaldiam earlier in the year. At December 31, 2006 Rio Tinto had completed 8,925.15 metres of core drilling, representing 68 core holes, delineating 6 kimberlite pipes and one kimberlite sill. In addition, Rio Tinto tested 7 magnetic and 3 electromagnetic anomalies with drilling, resulting in the discovery of 5 kimberlite pipes, one kimberlite dike and one sill. Since January 2005, Vaaldiam and Rio Tinto have completed 10,093.55 metres of drilling in 78 core holes of which 54 holes tested kimberlite.

Seven new kimberlites were discovered during 2006, increasing the total number of kimberlite occurrences to 41, including 38 kimberlite pipes ranging in size from one hectare up to 18 hectares in surface area. Two kimberlite dikes, and one kimberlite sill system have also been discovered as a result of the joint venture's exploration program. Microdiamond analysis indicates that 19 of the kimberlites are diamond-bearing, and mini-bulk sampling of four kimberlite pipes has resulted in the recovery of commercial-sized diamonds. The following table presents a list of the kimberlites that have been tested by drilling by both Vaaldiam and Rio Tinto during 2005 and 2006:

Pipe Name	No. of Holes	Metres Drilled	Surface Area of Pipe (in Hectares)
Cosmos 1	5	1,148	2.3
Cosmos 3	7	1,530	12.0
Cosmos 4	5	937	5.0
Clara	2	150	Dike
Pepper 1	3	456	2.0
Pepper 3	6	854	17.0
Pepper 4	7	891	7.5
Pepper 6	3	330	Sill
Pepper 13	3	282	1.5
Pepper 18	2	379	20 (Sill)
Tumeleiro 3	3	180	3 (Sill)
Tumeleiro 9	2	247	2.0
Tumeleiro 10	1	167	3.0
Tumeleiro 11	2	286	Dike
Tumeleiro 12	1	154	2.0
Tumeleiro 13	1	200	3.0
Arara 3	1	134	2.0
<b>Total</b>	<b>54</b>	<b>8,325</b>	

During November 2005, Rio Tinto mobilized a reverse circulation drilling unit to the property to commence a mini-bulk sampling program designed to recover 50 tonne mini-bulk samples of kimberlite from each of four pipes that had been selected for sampling. A total of 38 reverse circulation drill holes, utilizing a 5½ inch tricone drill bit, were completed totalling 7,436 metres of drilling, which resulted in the recovery of 164 tonnes of dry kimberlite from the four pipes. The following table summarizes the results of the reverse circulation drilling completed by Rio Tinto as part of their mini-bulk sampling program:

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

Granulometry tests of the kimberlite chips recovered by Rio Tinto during the reverse circulation drilling indicates that 55% of the kimberlite was reduced to a particle size of less than 2 mm. Visual inspection of the diamonds by Vaaldiam geologists, combined with an analysis of the diamond distribution, suggests that diamond breakage may have occurred during the drilling and sample collection stage. Vaaldiam and Rio Tinto have agreed to complete a diamond breakage study of the diamonds recovered during the mini-bulk sampling program, to assess the impact that any potential diamond breakage might have had on the sample results and the diamond distribution analysis. This study is expected to be completed in Antwerp, Belgium during Q2-2007. Additional mini-bulk sampling from the surface of the Cosmos 1 pipe has been recommended by Vaaldiam to confirm the diamond distribution within the Cosmos 1 pipe, and provide a comparison of the diamond recoveries from surface sampling to those obtained from reverse circulation drilling.

Vaaldiam's share of expenditure on the Pimenta Bueno property during 2006 was \$1,459,958 bringing total expenditure by the Company to December 31, 2006 to \$3,775,694. As of December 31, 2006 Rio Tinto's share of exploration expenditures on the property was \$6,789,460 (US\$5,841,965) bringing the total combined expenditures on the property by both Vaaldiam and Rio Tinto to approximately \$10,565,154. As at December 31, 2006 Vaaldiam owed \$942,665 to Rio Tinto for exploration expenditures incurred by Rio Tinto on Vaaldiam's behalf.

#### **Duas Barras Mine, Minas Gerais, Brazil**

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

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

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

Following the acquisition of a 75% interest in the Duas Barras property, VBM completed an additional phase of drilling which was designed to outline an alluvial gravel resource. A total of 16 percussion drill holes totalling 282 metres, and 107 rotary drill holes totalling 2,307 metres were completed during this program, providing the basis for an estimation of the potential gravel resources available for mining. Based on the delineation drilling and bulk sampling programs completed during 2005 and 2006, the Duas Barras deposit is estimated to contain an indicated resource of approximately 1.8 million cubic metres at an estimated grade of 0.16 carats of diamonds per cubic metre and 0.18 grams of gold per cubic metre, representing an in-situ diamond resource of 295,000 carats of diamonds and 10,771 ounces of gold. An additional inferred resource of approximately 0.9 million cubic metres has also been estimated at a grade of 0.16 carats of diamonds per cubic metre and 0.18 grams of gold per cubic metre representing an in-situ diamond resource of 137,000 carats of diamonds and 5,016 ounces of gold. The resource estimate is compliant with Canadian National Instrument 43-101 and 2004 CIM Standards for Mineral Resources.

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

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

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

Construction of the Company's diamond recovery plant is currently underway and its commissioning is expected to start towards the end of the first quarter of 2007 with commercial production expected to commence during the second quarter of 2007. This new plant has been designed to process about 80 cubic metres of gravel per hour, equivalent to an annual rate of

240,000 cubic metres, to produce an estimated 38,000 carats of diamonds and approximately 1,400 ounces of gold per year.

Improvements to the infrastructure supporting the Duas Barras Mine have also been completed, including the construction of additional accommodation for mine and construction staff, a new administration building and expanded garage facilities. Hydrological testing is also underway to measure groundwater flow in the proposed mining areas and environmental baseline studies have been completed in accordance with the environmental impact study authorized by the regulatory authorities in Brazil. In addition, the DNPM has granted VBM, on behalf of Marly, a Mining Licence for the area of the alluvial gravel deposit, as outlined by VBM's drilling program. The Licence encompasses 170.89 hectares along the left bank of the Jequitinhonha River. A temporary Licence of Operation was also granted by FEAM to VBM, on behalf of Marly, in February 2007. The final Licence of Operation is to be granted when the mine construction has been completed.

During the year ended December 31, 2006, Vaaldiam expended \$2,036,388 relating to the Duas Barras property bringing the total expenditures to December 31, 2006 to \$3,400,302.

### **Braúna Property, Bahia, Brazil**

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

The Braúna property is comprised of three exploration concessions which encompass 18 kimberlite occurrences consisting of four pipes associated with a kimberlite 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 subsequently formed joint venture company Cajueiro Mineração S.A. ("Cajueiro"). A detailed ground magnetic survey was completed during Q-4-2005, which resulted in the discovery of the Braúna 16 pipe, located just 400 metres to the northeast of the 1.0 hectare Braúna 4 pipe. An initial phase of drilling was then completed during 2006 which focused on the delineation of the Braúna 3 and Braúna 7 pipes. A total of 21 drill holes totalling 2,316 metres tested the Braúna 3 pipe to a depth of approximately 200 metres. Sixteen drill holes totalling 1,847 metres were completed at the Braúna 7 pipe, testing the pipe to a depth of 154 metres. Four drill holes totalling 418 metres were also completed at the Braúna 4 pipe, and an additional two holes were completed at the Braúna 16 pipe totalling 170 metres.

In November 2006, Vaaldiam and partner Majescor commenced a mini-bulk sampling program to confirm the presence of commercial-sized diamonds in the larger pipes on the Braúna property. A total of 100 tonnes of kimberlite was extracted from two pipes, namely the 1.7 hectare Braúna 3 pipe and the 1.0 hectare Braúna 7 pipe. The mini-bulk samples were collected through a series of vertical shafts which were being 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 within Vaaldiam's facilities in the town of Nordestina, which is situated less than five kilometres from the main cluster of pipes.

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

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

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

In addition to Majescor's interest in the Braúna property, Vaaldiam is undertaking due diligence regarding the proposed acquisition of Majescor's interest in the Tres Marias property. The Tres Marias property is located in the State of Minas Gerais and is comprised of 47 exploration licences covering approximately 900 km<sup>2</sup>.

During the year ended December 31, 2006, the Company's Braúna property exploration expenditures were \$1,309,618. To December 31, 2006, Vaaldiam's total expenditures relating to the Braúna property amounted to \$1,783,934, including Vaaldiam's exploration expenses amounting to \$1,372,934 and Vaaldiam's acquisition costs to acquire 60% of the property of \$411,000.

### **Aroeira Property, Bahia, Brazil**

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

In November 2006, Vaaldiam acquired ownership of De Beers exploration dataset for the Aroeira area. The Aroeira dataset covers an area of approximately 165,000 hectares and includes exploration results from 645 samples. Vaaldiam acquired this dataset as a result of an agreement with De Beers to purchase De Beers' exploration dataset for the Traira diamond district in northern Mato Grosso state, together with a claim owned by De Beers in the Traira area covered by the dataset. As a result of environmental restrictions, De Beers were unable to transfer ownership of the Traira claim to Vaaldiam. Therefore, in November 2006, De Beers offered and Vaaldiam accepted, the dataset for the Aroeira diamond district in the state of Bahia, to offset the inability to transfer ownership of the Traira claim to Vaaldiam. Vaaldiam has conducted no material exploration within the Aroeira district to date and the amount of \$111,710 reflected as the carrying value of the asset as at December 31, 2006 relates to the cost of acquiring the dataset from De Beers.

### Coronation Gulf Property, Nunavut, Canada

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

Prior exploration including till sampling, prospecting, drilling and airborne and ground geophysical surveys by Ashton resulted in the discovery of 11 kimberlites on the Coronation Gulf Property between 1999 and 2005. Eight of these have proven to be diamondiferous. In addition, a number of high priority airborne geophysical targets, unsourced kimberlite float and diamond indicator mineral dispersion trains remain to be evaluated on the properties.

The three hectare Artemisia pipe is the largest kimberlite pipe found to date on the Coronation Gulf Property. In August 2006, Vaaldiam collected a 100 tonne surface sample from the Artemisia pipe to confirm the presence of commercial sized diamonds, and determine whether the size distribution and quantity of the diamonds is sufficient to justify a larger bulk sampling program during 2007. Processing of this 100 tonne mini-bulk sample commenced in December 2006 at SGS Lakefield Research Limited, with results expected during Q2-2007. The mini-bulk sample represents the largest volume of kimberlite extracted from the Artemisia pipe. In addition to the 100 tonne mini-bulk sample collected from the Artemisia pipe, Vaaldiam also collected a one tonne sample from the Perseus kimberlite, located 37 kilometres south of the Artemisia pipe, to assess the diamond distribution within this kimberlite dyke system. This sample will also be processed at SGS Lakefield Research Limited following the completion of the processing of the Artemisia sample.

To December 31, 2006, Vaaldiam had spent \$1,396,460 in relation to the exploration of the Coronation Gulf Property, which has included the collection of the 100 tonne mini-bulk sample from the Artemisia kimberlite.

### Hotish Mountain Property, Quebec, Canada

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

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

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

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

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

In August and November 2005, an indicator sampling program was completed on the Hotish Mountain property involving the collection of 150 glacial till samples to determine the source of indicator mineral anomalies. Dios granted Vaaldiam a 30 day extension of the anniversary date of the option agreement to provide the Company with an opportunity to review the sampling results to date, and make a decision regarding the continuation of the option. In May 2006, Vaaldiam notified Dios that, based on results to date, the Company would not be undertaking further exploration of the property.

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

#### **Haute Kotto Property, Central African Republic**

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

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

#### **Selected Financial Information**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net sales	-	-	-
Net loss - total	\$ 3,517,506	\$ 1,007,251	\$ 742,419
- per share	\$ 0.044	\$ 0.018	\$ 0.020
Cash and cash equivalents	\$ 12,318,783	\$ 6,817,542	\$ 1,816,797
Restricted cash	\$ 429,300	\$ 1,331,916	\$ 428,711
Working capital	\$ 11,455,710	\$ 7,966,995	\$ 1,972,199
Total assets	\$ 24,862,182	\$ 13,593,562	\$ 4,071,428
Total long-term financial liabilities	-	-	-
Shareholders' equity	\$ 23,344,846	\$ 13,276,648	\$ 3,751,305
Cash dividends per share	-	-	-

## Summary of Quarterly Results

<b>Quarters Ended</b>	<b>Net Sales</b>	<b>Income (Loss)</b>	
		<b>Total</b>	<b>Per Share</b>
December 31, 2006	-	\$ (926,003)	\$ (0.014)
September 30, 2006	-	(193,701)	(0.00)
June 30, 2006	-	(382,991)	(0.00)
March 30, 2006	-	(2,014,811)	(0.03)
December 31, 2005	-	75,414	0.00
September 30, 2005	-	(357,617)	(0.00)
June 30, 2005	-	(355,848)	(0.01)
March 31, 2005	-	(369,200)	(0.01)

During the year ended December 31, 2006, a loss of \$3,517,506 or \$0.044 per share was recorded compared to a loss of \$1,007,251 or \$0.018 per share during the corresponding period of the prior year. The increased loss of \$2,510,255 arose primarily from an increase in stock based compensation expense of \$1,185,329, an increase in corporate and general expenses of \$484,790, increased property write offs of \$881,797, increased amortization of \$71,843 and reduced income tax recovery of \$308,179, all partially offset by increased interest income of \$426,332. The increased stock based compensation expense arose from an issuance of options in the first quarter of 2006 while the increase in corporate and general expenses and amortization expenses arose primarily from a higher level of activity in the recent year as compared to the corresponding period in the previous year. A lower level of flow-through shares issued accounted for the reduced income tax recovery while the increased interest income arose from a higher level of cash on deposit.

Seasonality has relatively little effect on the quarterly financial results of the Company, however, in that renunciation of Canadian Exploration Expense to flow-through share investors incurred or to be incurred, typically takes place in the last quarter of each year, a related income tax recovery has been reflected during the last quarter of 2006 and 2005. In the first quarter of 2006, an expense of \$1,185,115 was recorded relating to a grant of options, in addition to which the Hotish property in the amount of \$453,660 was written off.

During the quarter ended December 31, 2006, the main extraordinary items related to the write off of the Haute Kotto property in the CAR in the amount of \$709,335 and the recognition of an income tax recovery of \$180,600. In the quarter ended December 31, 2005 an income tax recovery of \$488,779 was recorded.

### Liquidity

As at December 31, 2006, the Company had working capital of \$11,455,710, the cash and cash equivalent portions of which was \$12,318,783. Cash equivalents relate to funds kept in a Scotia Premium T-Bill Fund, which fund is administered by Scotia Securities. The Scotia Premium T-Bill Fund invests primarily in Government of Canada treasury bills and other short-term debt instruments guaranteed by the Government of Canada. In addition to the cash and cash equivalents as at December 31, 2006, the Company had \$429,300 in restricted cash which was the balance remaining from the issuance of flow-through shares.

Accounts payable and accrued liabilities at December 31, 2006 of \$1,517,336 was unusually high as this figure included a provision of \$942,665 with regard to amounts owing to Rio Tinto as Vaaldiam's share of Pimenta Bueno exploration expenditures and an advance of \$182,990 relating to exploration expenditures to be incurred on behalf of a joint venture partner on the Braúna project.

During 2006, the Company completed a financing which provided additional gross proceeds of \$7,500,000 to Vaaldiam's treasury from the issuance of 7,777,778 common shares at \$0.90 per share and 476,191 flow-through common shares at \$1.05 per share, as a result of the automatic exercise of earlier issued special warrants, following the filing of a short-form prospectus.

Also during 2006, the Company raised an additional \$4,675,375 primarily as a result of the issuance of a notice of accelerated expiry regarding 5,088,483 warrants exercisable at \$0.80 each which were originally scheduled to expire on December 16, 2006. The notice of accelerated expiry was facilitated by the trading of Vaaldiam's shares above \$1.00 for 21 consecutive trading days, an event which allowed the Company to determine the earlier expiry date of April 3, 2006 in accordance with the terms of the warrants. The exercise of options and repayment of share purchase loans yielded an additional \$578,500 and \$133,284 respectively to the Company's treasury.

As at December 31, 2006 restricted cash amounted to \$429,300, which related to unspent flow-through share issue proceeds and which are required to be spent on eligible Canadian Exploration Expenditures prior to December 31, 2007. Unspent flow-through share issue proceeds are kept in separate bank accounts on which cheques relating to eligible Canadian Exploration Expenditures are drawn.

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

Vaaldiam has no debt nor lines of credit.

### Capital Resources

As at March 22, 2007, Vaaldiam had cash and cash equivalents of \$8.0 million.

A potential source of additional capital would be the exercise of options. As at March 22, 2007, the Company had issued the following unexercised options.

<b>No. of Options</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Potential Proceeds</b>
18,750	July 19, 2007	\$ 0.29	\$ 5,438
1,330,000	November 20, 2008	0.50	665,000
100,000	February 20, 2009	0.50	50,000
525,000	September 20, 2009	0.45	236,250
40,000	December 14, 2009	0.40	16,000
55,000	May 10, 2010	0.50	27,500
100,000	August 4, 2010	0.85	85,000
2,105,000	January 16, 2011	0.75	1,578,750
75,000	April 18, 2011	1.37	102,750
50,000	June 9, 2011	0.97	48,500
2,675,000	January 24, 2012	0.85	2,273,750
7,073,750			\$ 5,088,938

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

### **Off Balance Sheet Arrangements**

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

### **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 March 22, 2007 all directors' loans relating to the purchase of shares had been repaid in full plus interest.

In May 2006, a loan bearing interest at the Canadian prime rate plus 3%, repayable on demand in the amount of \$40,000, was granted to an officer and director and was still outstanding on March 22, 2007.

During 2006 an amount of approximately \$38,503 was paid to a company owned by a significant shareholder for accounting and administrative services provided to the Company's Brazilian subsidiaries during 2006.

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

### *Management's Assessment of Internal Control over Financial Reporting*

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

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

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

### **Critical Accounting Estimates**

Under the accounting rules used by Vaaldiam, the fair value of stock based compensation (option grants) is expensed for income statement purposes. The determination of fair value of options granted is generally provided by the Black-Scholes formula. Some of the parameters used in this formula are highly subjective, in particular the assumption of future price volatility. In addition, using the Black-Scholes model assumes that a satisfactory active market for the options exists whereas ownership of the options granted by Vaaldiam cannot be transferred under the rules of the Toronto Stock Exchange and the Company's Stock Option Plan. During the year ended December 31, 2006, \$1,418,100 was expensed as the cost of options issued under the Company's Stock Option Plan. The amount of \$1,418,100 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, 2006, exploration properties were reflected in the Company's balance sheet at \$10,468,100.

### Changes in Accounting Policies Including Initial Adoption

Vaaldiam's accounts are stated using Canadian GAAP. With the exception of the adoption by the Company of the four new Canadian Institute of Chartered Accountants' standards referred to in Note 3 to the audited consolidated financial statements, the adoption of which had no impact on the 2006 consolidated financial statements, the Company's accounting policies have not changed during 2006 and no future changes are contemplated except as may be required to conform with future changes in Canadian GAAP.

### Financial Instruments and Other Instruments

An amount of \$10,637,733 of the Company's cash assets as at December 31, 2006 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 22, 2007, the following were the undiluted and fully diluted common shares outstanding:

Undiluted common shares outstanding as at December 31, 2006	81,449,352
Shares issued to acquire 40% of Cajueiro (Braúna property)	1,733,102
Undiluted common shares outstanding as at March 22, 2007	83,182,454
Shares issuable on exercise of options as at March 22, 2007	7,073,750
Fully diluted shares outstanding as at March 22, 2007	90,256,204

### Corporate and General Expenses

The following is a comparison of Corporate and General Expenses incurred during the year ended December 31, 2006 compared to the corresponding period of the prior year.

	<b>2006</b>	<b>2005</b>	<b>(Increase) Decrease</b>
Administration	\$ 475,856	\$ 289,400	\$ (186,456)
Investor Relations	275,072	173,663	(101,409)
Directors' Fees and Performance Bonuses	59,400	139,000	79,600
Health Insurance	43,057	30,871	(12,186)
Office Rent	72,808	51,614	(21,194)
Insurance	27,466	14,853	(12,613)
Stationery and Printing	15,716	29,405	13,689
Telephone and Fax	25,618	16,714	(8,904)
Audit, Tax and Professional Fees	69,080	47,400	(21,680)
General Travel	10,869	15,179	4,310
Project Development	6,688	-	(6,688)
IT Support	7,330	-	(7,330)
Sundry Expenses	40,164	34,781	(5,383)
Capital Tax	5,989	-	(5,989)
General Legal Fees	35,968	20,563	(15,405)
Filing Fees	42,092	9,018	(33,074)
TSX Listing Expenses	120,322	48,133	(72,189)

Registrar's Fees	14,439	13,203	(1,236)
Annual Meeting Expenses (including annual report)	54,653	19,752	(34,901)
Bank Charges	2,027	414	(1,613)
Tax on Unspent Flow Through Shares	48,475	14,336	(34,139)
	\$ 1,453,089	\$ 968,299	\$ (484,790)

During the year ended December 31, 2006 Corporate and General Expenses were \$1,453,089, an increase of \$484,790 over the prior year's level of \$968,299. In general, the increase in Corporate and General Expenses in 2006 reflects a higher level of corporate activity compared to the prior year and expenses associated with securing a Toronto Stock Exchange listing.