



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 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 financial statements for the six months ended June 30, 2006.

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VAALDIAM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

	<u>June 30, 2006</u> <u>Unaudited</u>	<u>December 31, 2005</u> <u>Audited</u>
ASSETS		
Current		
Cash and cash equivalents (Notes 8 and 9)	\$ 17,135,122	\$ 8,149,458
Sundry receivables and prepayments	299,123	134,451
	17,434,245	8,283,909
Property and equipment	422,029	369,604
Exploration properties (Note 7)	6,910,644	4,940,049
	\$ 24,766,918	\$ 13,593,562
 LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 466,442	\$ 316,914
 SHAREHOLDERS' EQUITY		
Common shares (Notes 4 and 5(a))	26,565,117	13,315,518
Common share purchase warrants (Note 5(b))	277,333	1,147,751
Stock options (Note 5(c))	1,746,075	703,626
Deficit	(4,288,049)	(1,890,247)
	24,300,476	13,276,648
	\$ 24,766,918	\$ 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
(UNAUDITED)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses				
Corporate and general	(389,534)	(372,411)	(815,387)	(567,578)
Stock based compensation (Note 5(c))	(92,350)	(30,746)	(1,277,465)	(69,428)
Write-off of exploration properties (Note 7)	(2,683)	-	(456,343)	(140,886)
Amortization	(33,481)	(8,232)	(72,262)	(9,407)
Foreign exchange gain/(loss)	(23,627)	47,117	(22,555)	46,041
Total expenses (Note 3)	(541,675)	(364,272)	(2,644,012)	(741,258)
Less: Interest income	158,684	8,424	246,210	16,210
Net loss	(382,991)	(355,848)	(2,397,802)	(725,048)
Deficit, beginning of period	(3,905,058)	(1,252,196)	(1,890,247)	(882,996)
Deficit, end of period	<u>\$ (4,288,049)</u>	<u>\$ (1,608,044)</u>	<u>\$ (4,288,049)</u>	<u>\$ (1,608,044)</u>
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)	\$ (0.03)	\$ (0.02)

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Three Months Ended June 30		Six Months Ended June 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Activities				
Net loss for the period	\$ (382,991)	\$ (355,848)	\$ (2,397,802)	\$ (725,048)
Amortization	33,481	8,232	72,262	9,407
Write-off of exploration properties (Note 7)	2,683	-	456,343	140,886
Stock-based compensation (Note 5(c))	92,350	30,746	1,277,465	69,428
	<u>(254,477)</u>	<u>(316,870)</u>	<u>(591,732)</u>	<u>(505,327)</u>
Change in non-cash components of working capital				
Sundry receivables and prepayments	29,524	30,393	(164,672)	(35,599)
Accounts payable and accrued liabilities	(191,681)	84,492	149,528	(98,394)
	<u>(162,157)</u>	<u>114,885</u>	<u>(15,144)</u>	<u>(133,993)</u>
	<u>(416,634)</u>	<u>(201,985)</u>	<u>(606,876)</u>	<u>(639,320)</u>
Investing Activities				
Purchase of equipment	(93,724)	(207,207)	(124,688)	(258,461)
Mineral exploration expenditures (Note 7)	(1,621,231)	(822,398)	(2,426,938)	(1,247,523)
	<u>(1,714,955)</u>	<u>(1,029,605)</u>	<u>(2,551,626)</u>	<u>(1,505,984)</u>
Financing Activity				
Net proceeds from issuance of common shares and common share purchase warrants (Note 5(a))	1,373,759	7,178,273	12,144,166	7,664,661
Increase (decrease) in cash	<u>(757,830)</u>	<u>5,946,683</u>	<u>8,985,664</u>	<u>5,519,357</u>
Cash and cash equivalents, beginning of period	<u>17,892,952</u>	<u>1,818,182</u>	<u>8,149,458</u>	<u>2,245,508</u>
Cash and cash equivalents, end of period	<u>\$ 17,135,122</u>	<u>\$ 7,764,865</u>	<u>\$ 17,135,122</u>	<u>\$ 7,764,865</u>

See accompanying notes to financial statements.

VAALDIAM RESOURCES LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2006, the Company’s expenses and property write down amounted to \$2,644,012 and for the six months ended June 30, 2005 total expenses were \$741,258, analysed as follows.

	Six Months Ended June 30	
	<u>2006</u>	<u>2005</u>
Stock based compensation	\$ 1,277,465	\$ 69,428
Administration	216,309	163,912
Investor relations	143,763	117,678
General travel	6,651	7,175
Audit related fees	27,080	24,150
Health insurance	18,670	14,032
General legal fees	20,806	8,006
Stationery and printing	9,971	21,266
Telephone and fax	12,154	6,005
Sundry expenses	26,854	28,395
Project development	6,688	-
Directors’ fees and performance bonuses	27,000	112,000
TSX listing expenses	120,322	-
Registrar’s fees	10,958	5,613
Annual meeting expenses	53,107	19,752
Office rent	30,618	25,859
Filing fees	31,704	9,018
Insurance	11,773	4,717
Amortization	72,262	9,407
Capital tax	10,098	-

Foreign exchange (gain) loss	22,555	(46,041)
Tax on unspent flow-through funds	30,861	-
Property write down	456,343	140,886
	<u>\$ 2,644,012</u>	<u>\$ 741,258</u>

4. RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows for the six months ended June 30, 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 \$27,000 were paid during the first six months. During the six months ended June 30, 2006, Vaaldiam's Brazilian subsidiary MPIC paid approximately \$19,000 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 demand and bears interest at Canadian prime rate plus 3% since January 1, 2006. Under the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract 132 "Share Purchase Financing", the outstanding loan of \$100,000 is classified as a reduction to shareholders' equity until repaid and, accordingly, is not reflected as a receivable. During September 2005, the Company granted an initially interest free loan of \$20,494 to an officer and director 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. In May 2006, a loan, repayable on demand in the amount of \$40,000 and bearing interest at the Canadian prime rate plus 3%, was granted to an officer and director.

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)	6,156,381	4,675,375
Allocated from warrants (b)	-	1,147,751
Repayment of share purchase loans to directors (4)	-	133,284
Private placements (net of share issue costs of \$995,326 including compensation options of \$277,333 (ii))	8,253,969	6,504,674
Exercise of options (iii)	1,170,000	553,500
Allocated from options (c)	-	235,015
	<u>81,399,352</u>	<u>\$ 26,565,117</u>
Balance, June 30, 2006	81,399,352	\$ 26,565,117

- (i) During the six months ended June 30, 2006 the following warrants were exercised:

<u>Date of Issue</u>	<u>Warrants Exercised</u>	<u>Exercise Price</u>	<u>Proceeds</u>
September 15, 2004	301,602	\$0.40	\$ 120,641
June 16, 2005	5,209,333	0.80	4,167,466
June 16, 2005	645,446	0.60	387,268
	6,156,381		\$ 4,675,375

- (ii) On February 9, 2006, the Company closed a bought-deal private placement offering of Common Share and Flow-Through Share 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 and 476,191 Flow-Through Share Special Warrants issued at a price of \$1.05, 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 Share 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 were 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 and Flow-Through Common Shares.

- (iii) During the six months ended June 30, 2006, the following options were exercised:

<u>Options Exercised</u>	<u>Exercise Price</u>	<u>Proceeds</u>
25,000	\$0.29	\$ 7,250
745,000	\$0.50	372,500
275,000	\$0.45	123,750
125,000	\$0.40	50,000
1,170,000		\$553,500

(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	(6,156,381)	(1,147,751)
	<hr/>	<hr/>
Balance, June 30, 2006	495,238	\$ 277,333
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The following is a summary of the unexercised warrants as at June 30, 2006:

<u>Number Outstanding</u>	<u>Date of Issue</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
495,238	February 9, 2006	0.90	February 9, 2007

(c) Stock Options

	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Deemed Value at Issuance</u>
Options outstanding January 1, 2006	3,388,750	\$ 0.49	\$ 703,625
Issued	2,230,000	0.78	1,277,465
Exercised	(1,170,000)	0.47	(235,015)
	<hr/>	<hr/>	<hr/>
Options outstanding June 30, 2006	4,448,750	\$ 0.64	\$ 1,746,075
	<hr/>	<hr/>	<hr/>

<u>Exercise Price</u>	<u>Outstanding June 30, 2006</u>	<u>Weighted Av. Life (Years)</u>
\$ 0.29	18,750	0.004
0.50	1,330,000	0.716
0.50	150,000	0.089
0.45	525,000	0.381
0.40	40,000	0.031
0.50	55,000	0.048
0.85	100,000	0.092
0.75	2,105,000	2.153
1.37	75,000	0.081
0.97	50,000	0.056
	<hr/>	<hr/>
	4,448,750	3.651
	<hr/>	<hr/>

During the three months ended June 30, 2006, the Company recognized a stock based compensation expense of \$1,277,465 utilizing the Black-Scholes Option Pricing Model based on the following assumptions:

June 30, 2006

Risk-free interest rate	3.88% - 4.28%
Expected dividend yield	0.00%
Expected share price volatility	70.00%
Expected life of options	5 years

6. SUMMARY OF SECURITIES AS AT JUNE 30, 2006

Common shares outstanding	81,399,352
Unexercised options to acquire common shares	4,448,750
Unexercised warrants to acquire common shares	495,238
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Fully diluted shares outstanding	86,343,340

7. EXPLORATION PROPERTIES

<u>Property</u>	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Balance June 30, 2006</u>
Pimenta Bueno - Brazil	\$ 2,315,736	\$ 405,653	\$ 2,721,389
Brauna - Brazil	474,316	692,978	1,167,294
Duas Barras - Brazil	1,363,914	1,022,578	2,386,492
Triara - Brazil	-	111,710	111,710
Haute Kotto - Central African Republic	340,473	183,286	523,759
Hotish - Canada	445,610	(445,610) ⁽¹⁾	-
	<hr/>		
	\$ 4,940,049	\$ 1,970,595	\$ 6,910,644

⁽¹⁾ Property written off including an additional \$10,733 of exploration expenditures incurred during the six months ended June 30, 2006.

8. FLOW-THROUGH SHARES AND COMMITMENTS

As at June 30, 2006, the Company was obligated to incur \$1,321,182 in eligible Canadian Exploration Expenses prior to December 31, 2006 and \$500,001 prior to December 31, 2007.

9. SUBSEQUENT EVENTS

Under the terms of an agreement with a subsidiary of Ashton Mining of Canada Inc. concluded in July 2006, Vaaldiam has an exclusive option to acquire a 40% joint venture interest in the Coronation Gulf Properties by spending a total of \$3.0 million on exploration of the properties before December 31, 2008. Of this expenditure, \$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 option.