

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2006

Date

This Management Discussion and Analysis (“MD&A”) contains information up to and including August 8, 2006. The Company’s financial year ends on December 31.

Sector of Operations

Vaaldiam Resources Ltd. (“Vaaldiam” or the “Company”) acquires, explores and develops diamond deposits with the objective of becoming a significant producer of rough diamonds. The Company’s operations are primarily conducted in Brazil and to a lesser extent in Canada and the Central African Republic.

Annual Financial Statements

The following report accompanies, and should be read in conjunction with, the audited consolidated financial statements of the Company for the two years ended December 31, 2005 and 2004 and the unaudited consolidated financial statements for the six months ended June 30, 2006.

Selected Financial Information

	June 30	
	<u>2006</u>	<u>2005</u>
Net sales	Nil	Nil
Net loss - total	\$ (2,397,802)	\$ (725,048)
- per share	\$ (0.03)	\$ (0.02)
Cash and cash equivalents	17,135,122	7,764,865
Working capital	16,967,803	7,669,273
Shareholders’ equity	24,300,476	10,774,847
Total long-term financial liabilities	Nil	Nil
Total assets	24,766,918	10,996,576

EXPLORATION AND DEVELOPMENT

Pimenta Bueno Property

The Pimenta Bueno property is situated in the state of Rondônia, Brazil. The 248,000 hectare property covers 34 known kimberlite pipes, 15 of which are diamond-bearing based on micro and macro-diamond sampling. Exploration, consisting of drilling, trenching, aeromagnetic surveying and sampling is being conducted on the property.

Vaaldiam acquired a 100% interest in the Pimenta Bueno property in November 2003 as a result of a reverse take-over transaction with Santa Elina Mines Corporation, a private Brazilian company. Exploration started in January 2004, following Vaaldiam’s acquisition of an extensive exploration

database compiled by Rio Tinto Mining and Exploration Limited (“Rio Tinto”), which had carried out reconnaissance exploration during the mid-1990s in the Pimenta Bueno district. During their initial campaign of exploration, Rio Tinto had conducted airborne magnetic surveys which resulted in the definition of a number of magnetic targets. Ground follow-up of these targets resulted in the discovery of 13 kimberlite pipes, the majority of which were found to be diamond-bearing. By 1996 Rio Tinto had expended approximately US\$4,000,000 on exploration in the Pimenta Bueno District. Despite the discoveries, Rio Tinto’s international exploration efforts were reportedly adversely affected by budget cutbacks, which eventually resulted in the relinquishment of the majority of their mineral rights in the Pimenta Bueno district.

To acquire the exploration database, Vaaldiam provided Rio Tinto with a one year window of opportunity to exercise an option to earn a 51% interest in the Pimenta Bueno property, by expending a total of US\$12,500,000 on exploration over a period of three years; US\$5,000,000 on the Southern Block of the property and US\$7,500,000 on the Northern Block. Under the terms of the option agreement, Rio Tinto could increase its interest to 70% by delivering a bankable feasibility study. Rio Tinto exercised their option to earn a 51% interest in June 2005, and has expended approximately US\$4,940,000 on exploration of the property to May 31, 2006.

Since taking over management of the exploration program at Pimenta Bueno, Rio Tinto has completed 5,255 metres of delineation drilling of seven kimberlite pipes, outlining a potential open-pit resource of approximately 182 million tonnes of kimberlite to a depth of approximately 200 metres. Mini-bulk samples from four of the pipes have been taken, with approximately 164 dry tonnes of kimberlite having been extracted for processing and macro-diamond recovery.

A summary of results of the mini-bulk samples collected from the Cosmos 1, Cosmos 3 and Pepper 4 kimberlite pipes follows. Mini-bulk samples from the Pepper 13 pipe will be released shortly.

Cosmos 1 Pipe

Mini-bulk sampling of the 2.5 hectares Cosmos 1 pipe resulted in the recovery of 117 macro diamonds (>0.850 mm) with a total weight of 2.45 carats. The two largest diamonds recovered from the Cosmos 1 pipe weighed 0.14 carats and 0.12 carats respectively. Rio Tinto has estimated that approximately 98.0 tonnes of kimberlite were recovered from 13 reverse circulation drill holes using a 5½ inch tri-cone drill bit. Screening of the kimberlite to >0.85 mm at the drill-site resulted in the recovery and delivery of 62.2 dry tones of kimberlite for processing by dense media separation at Rio Tinto’s laboratory facility in Brasilia.

Additional mini-bulk sampling from 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.

Cosmos 3 Pipe

Mini-bulk sampling of the 12 hectares Cosmos 3 pipe resulted in the recovery of 16 diamonds with a total weight of 0.28 carats. An estimated 90.7 tonnes of kimberlite was recovered in 12 reverse circulation drill holes using a 5½ inch tri-cone drill bit. Screening of the sample to >0.85 mm resulted in the recovery of 56.5 dry tonnes of kimberlite for delivery and processing by dense media separation at Rio Tinto’s laboratory facility in Brasilia. The Cosmos 3 pipe, and its satellite pipe Cosmos 4 (not tested by mini-bulk sampling) are situated 5 kilometres southwest of the Cosmos 1 pipe.

Pepper 4 Pipe

Ten reverse circulation drill holes were completed at the 7.5 hectares Pepper 4 pipe, producing an estimated 49.3 tonnes of kimberlite. Reduction of the kimberlite at the drill site to >0.85 mm resulted in the recovery of 32.6 dry tonnes of kimberlite for processing. A total of 25 diamonds totaling 0.42 carats in weight were recovered from this mini-bulk sample.

Follow-up Exploration

In addition to the mini-bulk sampling program, Rio Tinto has continued reconnaissance exploration within the property, to define new targets which may represent undiscovered kimberlite bodies. Rio Tinto has collected approximately 300 alluvial samples for kimberlite indicator mineral analysis, which has resulted in the definition of 15 kimberlite indicator mineral anomalies requiring follow-up sampling and testing. Rio Tinto also completed 1,900 kilometres of helicopter electromagnetic surveying over a portion of the main cluster of kimberlites on the Pimenta Bueno property at the end of 2005. The electromagnetic survey produced a conductive response over the majority of the known kimberlites, and also identified five untested conductive anomalies with similar responses to the known kimberlites (first priority electromagnetic anomalies). Drill testing of these anomalies is underway, with the goal of discovering new, non-magnetic diamond bearing kimberlite pipes.

During the six months ended June 30, 2006, Vaaldiam expended an additional \$405,790 on the Pimenta Bueno project, including \$265,311 to acquire a De Beers' exploration dataset, bringing total expenditures on the project by the Company to \$2,721,389. In the first year of exploration since June 2005, Rio Tinto reportedly has spent approximately US\$4,940,000 on exploration of the property, bringing total combined expenditures on the property by Vaaldiam and Rio Tinto to approximately \$8,310,000

As of June 30, 2006, Rio Tinto has reported that Rio Tinto's expenditures on the South Block since June 2005 amounted to approximately US\$4,987,000. When Rio Tinto has spent the US\$5,000,000 required to earn a 51% interest in the Southern Block of the Pimenta Bueno property, Vaaldiam would be required to fund its share of project exploration costs as to 49% of total agreed exploration expenditures on the Southern Block in order to maintain its percentage interest.

Brauna Property

In August 2005, Vaaldiam acquired a 60% interest in the Brauna property from Majescor Resources Inc. The Brauna property is comprised of three exploration concessions which encompass 18 known kimberlite occurrences consisting of four known pipes associated with an extensive kimberlite dyke system. Three of the kimberlites and the dyke system were discovered by De Beers in the early 1990s during a large scale reconnaissance sampling program over a portion of the São Francisco Craton in Bahia state. De Beers completed a limited surface sampling program on the kimberlites, which demonstrated that 13 of the kimberlite occurrences are diamond-bearing.

Vaaldiam acquired the 60% interest in the Brauna property under the terms of a purchase agreement with Majescor, whereby Vaaldiam paid De Beers the sum of \$300,000 on behalf of Majescor which represented the balance owed by Majescor under the terms of a purchase agreement between De Beers and Majescor involving the Brauna Property. In addition, Vaaldiam issued a total of 150,000 common shares to Majescor valued at time of issue at \$111,000.

Exploration started on the Brauna property in October 2005, and within one month Vaaldiam discovered a new kimberlite pipe. The new pipe was discovered during prospecting of a ground magnetic anomaly approximately 400 metres to the northeast of the Brauna 4 pipe. Brauna 4 is one of the three

diamondiferous pipes discovered on the Brauna property by De Beers in the mid-1990s. The new kimberlite discovery, named Brauna 16, was exposed in a surface trench excavated at the southern edge of a ground magnetic anomaly which has a surface area of roughly one hectare.

The Brauna property therefore encompasses the four known kimberlite pipes or blows, which are associated with a system of kimberlite dykes traced over a distance of approximately 20 kilometres. Vaaldiam, as operator of the joint venture, has mobilized three drill rigs to the property to complete a program of delineation drilling of the four known kimberlite pipes, in advance of a mini-bulk sampling program that is expected to commence during the latter half of 2006.

During the six months ended June 30, 2006, the Company's share of Brauna property exploration expenditures were \$692,978. To June 30, 2006 Vaaldiam's total expenditures relating to the Brauna property amounted to \$1,167,294, including Vaaldiam's exploration expenses amounting to \$756,294 and Vaaldiam's property acquisition costs of \$411,000.

Tríara Property

Vaaldiam entered into an agreement with De Beers Brasil Ltda. to purchase De Beers' exploration dataset for the Tríara diamond district in northern Mato Grosso state. The dataset covers an area of approximately 60,000 hectares and is comprised of exploration results from approximately 7,500 samples.

Duas Barras Property

In January 2005, Vaaldiam entered into an option agreement to acquire a 70% interest in the Duas Barras property from Mineração Marly Ltda. ("Marly"), a private Brazilian mining company. The agreement provided that, should Vaaldiam exercise the option, it would be required to pay US\$150,000 to Marly and provide to the joint venture use of equipment and advances of working capital with an aggregate value of US\$1,500,000. Marly also granted Vaaldiam the option to acquire Marly's 30% interest in the joint venture at any time in return for the payment of US\$1,000,000. On December 22, 2005 the Company exercised its option to acquire the 70% interest in the Duas Barras property, and has since increased its interest to 75% by paying Marly an additional US\$50,000.

The Duas Barras property is situated 150 kilometres north of the town of Diamantina in the state of Minas Gerais, Brazil. The property lies along the left bank of the upper Jequitinhonha River, which has been a significant diamond-producing area since the early 1800s. Alluvial diamond deposits associated with the Jequitinhonha River have been exploited for over 200 years. Production is from a combination of industrial-scale river dredge operations, and smaller garimpeiro workings. The diamonds produced from alluvial gravels along the Jequitinhonha River are predominantly gem-quality cuttable goods, with sales values reportedly ranging between US\$150 and US\$225 per carat.

Large-scale river dredging operations have been conducted both upstream and downstream of the Duas Barras property, and exploration records from areas immediately adjacent to the property provide evidence that significant basal gravel deposits lie within the property boundaries. The basal gravels are comprised of a clast supported gravel horizon comprised largely of well-sorted quartz cobbles and quartzite boulders, within a matrix of quartz-rich sands that host a visible concentration of heavy minerals such as gold, tourmaline, ilmenite, kyanite, topaz, and sapphire. Both diamond and gold grades appear to correlate directly with the occurrence of these heavy minerals in the gravels. The presence of recoverable free gold is expected to have a significant impact on the potential economics of the Duas Barras property. With the exception of small-scale garimpeiro operations during the past 50 years or so, the Duas Barras property remains relatively untouched, and offers a unique opportunity to develop a small to medium scale alluvial mining operation.

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 small pilot processing plant to process a bulk sample. The bulk sample program thus far has yielded the following results from the North and Northwest Zones as defined by detailed drilling on approximately 30% of the property.

Pit #1 in the Northern Zone was the location of Vaaldiam's initial bulk sample, which produced 129 diamonds totalling 30.67 carats from 132.6 m³ (approximately 239 tonnes) of gravel for a recovered grade of 0.23 ct/m³ or 12.85 cph. The individual diamonds recovered from Pit #1 ranged in size from 0.10 carats to 1.24 carats, with an average stone size of 0.24 carats.

Processing of 42.4 cubic metres (approximately 76 tonnes) of lower basal alluvial gravel extracted from Pit #2, at the western end of the Northwest Zone almost 400 metres to the west of Pit #1, has resulted in the recovery of 35 diamonds with a total combined weight of 21.86 carats yielding an average recovered grade of 0.51 ct/m³ (approximately 28 cph). The individual diamonds recovered in the sample ranged from 0.10 carats to 4.65 carats, with an average stone size of 0.62 carats. The 4.65 carat has been classified as a white octahedral crystal, and represents the largest diamond recovered to date in the Company's sampling program on the Duas Barras property. A 3.36 carat greenish-white octahedral stone was also recovered from the sample.

Processing of the upper 1 metre of the basal gravel sequence from Pit #2 resulted in the recovery of 48 diamonds totalling 16.27 carats from 149.2 m³ (approximately 269 tonnes) of gravel for a recovered grade of 0.11 ct/m³ or 6.05 cph. The individual diamonds recovered range in size from 0.09 carats up to 2.39 carats in weight, with an average stone size of 0.34 carats.

Initial plant design and mine planning for full-scale production at Duas Barras is currently underway, and fabrication and construction of the processing plant is expected to commence during the third quarter of 2006. Improvements to the infrastructure of the Duas Barras project are nearing completion, with the construction of additional accommodation for mine and construction staff, a new administrative building, and expanded garage facilities. Hydrological testing is also underway to measure groundwater flow in the proposed mining areas, and environmental baseline studies are being completed in accordance with the environmental impact study authorized by the regulatory authorities in Brazil. In addition, a detailed percussion drilling program has been completed and a resource estimation, compliant with National Instrument 43-101, is expected to be completed during the third quarter.

The Company has engaged engineering firms to provide assistance with the mine and processing plant design. Based on the preliminary mine and processing projections, commercial production is expected to commence during the fourth quarter of 2006.

During the six months ended June 30, 2006, Vaaldiam expended \$1,022,578 relating to the Duas Barras property bringing total expenditures to June 30, 2006 to \$2,386,492.

Coronation Gulf Property

In July 2006, Vaaldiam reached an agreement with Ashton Mining of Canada Inc. ("Ashton") as a result of which Vaaldiam plans to collect a mini-bulk sample from the surface of the approximately three hectare Artemisia kimberlite pipe, situated in the north Slave Craton region of Nunavut, Canada. The Artemisia pipe is one of five diamond bearing kimberlites identified on the 91,400 hectares Coronation Gulf Properties, namely the Kim, Ric, Vic, Eokuk and James River properties, that are owned 100% by a

wholly-owned subsidiary of Ashton. The Coronation Gulf properties are located 500 km north of Yellowknife and 50 km south of the Coronation Gulf.

Ashton discovered the Artemisia kimberlite in 2001 as an outcrop at the head of a kimberlite float and indicator mineral anomaly dispersion fan. In 2002, Ashton collected a total of 1.16 tonnes of kimberlite from surface, testing the pipe in three different locations. After processing this sample through its North Vancouver B.C. dense media separation plant, Ashton reported that the sample returned a total of 0.20 carats of diamonds larger than 0.8 mm using a square aperture screen. Later in 2002, Ashton collected an additional 11 tonnes of kimberlite from seven holes drilled in order to delineate the boundaries of the pipe. This sample was also treated at Ashton's North Vancouver plant and returned a total of 1.18 carats of diamonds larger than 0.8 mm using a square aperture screen. The largest diamond recovered was a colourless aggregate crystal weighing 0.08 carats.

Exploration conducted by Ashton indicates that the Artemisia pipe has a surface area of approximately three hectares, and is comprised of diatreme facies kimberlite. The Artemisia pipe is situated approximately 2.5 km northeast of the diamond-bearing Thrift kimberlite, a body associated with a 100 metre diameter magnetic anomaly. To date, Ashton has discovered eight kimberlites on the Coronation Gulf Properties, five of them diamondiferous. In addition to the known kimberlites, Ashton has identified more than 10 indicator mineral anomalies that warrant investigation.

Under the terms of the agreement with Ashton, 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 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 option. Vaaldiam currently has \$1.8 million in flow-through share derived funds available to fund the exploration of the Coronation Gulf Properties. Vaaldiam is the operator for the 2006 program with Ashton retaining the right of operatorship after 2006.

Hotish Mountain Property

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:

Deadline	Expenditures
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:

Issue Date	Number of Shares
Forthwith on receiving Toronto Stock Exchange approval	25,000 shares (issued)
April 12, 2006	25,000 shares (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 to 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, \$441,843 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 \$456,343, which amount was written off effective March 31, 2006.

CAR-Haute Kotto Property

In March 2004, the Company was granted a 2,000 square kilometre 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.

During the six months ended June 30, 2006, the Company spent \$183,286 on the Haute Kotto property, primarily related to conducting reconnaissance exploration work on the property. To June 30, 2006 Vaaldiam had spent \$523,759 on the Haute Kotto property.

During the past year, the CAR has received an increasing degree of attention from major diamond mining companies as a result of which the Company will endeavour to establish the degree of interest, if any, a major diamond mining company may have in forming a joint venture with Vaaldiam to explore for diamonds in the CAR.

Summary of Quarterly Results

<u>Quarters Ended</u>	<u>Net Sales</u>	<u>Income (Loss)</u>	
		<u>Total</u>	<u>Per Share</u>
June 30, 2006	-	\$ (382,991)	\$ (0.00)
March 31, 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 30, 2005	-	(369,200)	(0.01)
December 31, 2004	-	(69,851)	(0.01)
September 30, 2004	-	(205,253)	(0.00)

During the six months ended June 30, 2006, a loss of \$2,397,802 or \$0.03 per share was recorded compared to a loss of \$725,048 or \$0.02 per share during the corresponding period of the prior year. The

increased loss arose primarily from an increase in stock based compensation expense of \$1,208,037, an increase in corporate and general expenses of \$247,809, increased property write off of \$315,457 and increased amortization of \$62,855. The increased stock based compensation expenses 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 more recent six months as compared to the corresponding period in the previous year.

Liquidity

As at June 30, 2006, the Company had working capital of \$16,967,803, the cash and cash equivalent portion of which was \$17,135,122. 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.

During the six months ended June 30, 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.

During the period January 1, 2006 to August 8, 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 \$553,500 and \$133,284 respectively to the Company's treasury.

Included in cash and cash equivalents as at June 30, 2006 were amounts of \$1,321,182 and \$500,001 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, 2006 and December 31, 2007 respectively. 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 August 8, 2006 Vaaldiam had cash and cash equivalents of approximately \$15,863,000 which amount is after making an advance payment of \$500,000 in relation to exploration expenses associated with the Coronation Gulf property. In addition to cash and cash equivalents on hand, the exercise of outstanding share purchase warrants would be a potential source of additional capital.

As at August 8, 2006 the Company had the following warrants outstanding:

<u>No. of Warrants</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Potential Proceeds</u>
495,238	February 9, 2007	\$ 0.90	\$ 445,714

Whether the remaining warrants will be exercised or not is dependent, between now and the expiry dates, at least in part, on the performance of the Company's share price, the liquidity (volume traded daily) for Vaaldiam's stock and the individual preferences of the warrant holders.

A potential source of additional capital would be the exercise of options. As at August 8, 2006, the Company had issued the following unexercised options.

<u>No. of Options</u>	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Potential Proceeds</u>
18,750	July 19, 2007	\$ 0.29	\$ 5,438
1,330,000	November 20, 2008	0.50	665,000
150,000	February 20, 2009	0.50	75,000
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
4,448,750			\$ 2,840,188

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 amount of approximately \$349,000 in total over the period July 1, 2006 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 loans to directors for the

purchase of shares since January 1, 2006 bore interest at Canadian prime rate plus 3%, and are classified as a reduction to shareholders' equity until repaid. As at August 8, 2006 the only director's loan outstanding related to the purchase of shares was a demand loan of \$100,000 plus accrued interest, all other loans having been repaid with interest during the quarter ended March 31, 2006.

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 August 8, 2006.

During 2006, an amount of approximately \$19,000 was paid to a company owned by a significant shareholder for accounting and administrative services provided to the Company's Brazilian subsidiaries during the period January to June inclusive.

Proposed Transactions

Vaaldiam is currently proceeding towards the development of the Duas Barras alluvial diamond property in Brazil where the Company has a 75% interest. In order to bring the Duas Barras property to production the Company is required to pay the owner US\$150,000 and provide up to US\$1,500,000 towards the purchase of mining and processing equipment and working capital required for development of the property. The US\$150,000 will be paid to the property owner following the furnishing by him of all the outstanding permits required to bring the property to production.

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.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under the Canadian Securities Administrators' Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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 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 six months ended June 30, 2006, \$1,277,465 was expensed as the cost of options issued under the Company's Stock Option Plan. The amount of \$1,277,465 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 June 30, 2006, exploration properties were reflected in the Company's balance sheet at \$6,910,644.

Changes in Accounting Policies Including Initial Adoption

Vaaldiam's accounts are stated using Canadian GAAP. The Company's accounting policies have not changed and no future changes are contemplated.

Financial Instruments and Other Instruments

An amount of \$14,803,139 of the Company's cash assets as at June 30, 2006 were invested in a Scotia Premium T-Bill Fund administered by Scotia Securities, which invests mainly in Government of Canada treasury bills and is considered to be a low risk interest bearing account.

Disclosure of Outstanding Share Data

As at August 8, 2006, the following were the undiluted and fully diluted common shares outstanding:

Undiluted common shares outstanding	81,399,352
Shares issuable on exercise of warrants	495,238
Shares issuable on exercise of options	<u>4,448,750</u>
Fully diluted shares outstanding	<u>86,343,340</u>

Corporate and General Expenses

The following is a comparison of Corporate and General Expenses incurred during the six months ended June 30, 2006 compared to the corresponding period of the prior year.

	<u>2006</u>	<u>2005</u>	<u>(Increase)</u> <u>Decrease</u>
Administration	\$ 216,309	\$ 163,912	\$ (52,397)
Investor relations	143,763	117,678	(26,085)
Directors fees and performance bonuses	27,000	112,000	85,000
Health insurance	18,670	14,032	(4,638)
Office rent	30,618	25,859	(4,759)
Insurance	11,773	4,717	(7,056)
Stationery and printing	9,971	21,266	11,295
Telephone and fax	12,154	6,005	(6,149)
Audit and tax fees	27,080	24,150	(2,930)
General travel	6,651	7,175	524
Sundry expenses	26,854	28,395	1,541
Capital tax	10,098	-	(10,098)
General legal fees	20,806	8,006	(12,800)
Filing fees	31,704	9,018	(22,686)
TSX listing expenses	120,322	-	(120,322)
Registrar's fees	10,958	5,613	(5,345)
Annual meeting expenses (including annual report)	53,107	19,752	(33,355)
Project development	6,688	-	(6,688)
Tax on unspent flow-through shares	30,861	-	(30,861)
	<u>\$ 815,387</u>	<u>\$ 567,578</u>	<u>\$ (247,809)</u>

During the six months ended June 30, 2006 Corporate and General Expenses were \$815,387, an increase of \$247,809 over the prior year's level of \$567,578. 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.

Other MD&A Requirements

Additional information relative to Vaaldiam, including the Company's Annual Information Form, is available on the SEDAR website: www.sedar.com under Vaaldiam Resources Ltd.

Forward Looking Statements

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes or the lack thereof, continued

availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that the actual results or developments may differ materially from those projected in the forward-looking statements.