



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Vaaldiam Resources Ltd. discloses that the interim consolidated financial statements for the nine months ended September 30, 2006 have been prepared by management in accordance with generally accepted accounting principles in Canada and have not been audited or reviewed by the Company's auditors. However, its auditors have reviewed the unaudited comparative financial statements for the nine months ended September 30, 2005.

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**VAALDIAM RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**

|   | <u>September 30, 2006</u><br><u>Unaudited</u> | <u>December 31, 2005</u><br><u>Audited</u> |
|---|---|--|
| <b>ASSETS</b>                                     |   |  |
| <b>Current</b>                                    |   |  |
| Cash and cash equivalents (Note 8)                | \$ 15,640,910                                 | \$ 8,149,458                               |
| Sundry receivables and prepayments                | 403,687                                       | 134,451                                    |
|   | 16,044,597                                    | 8,283,909                                  |
| Property and equipment                            | 557,364                                       | 369,604                                    |
| Exploration properties (Note 7)                   | 9,046,818                                     | 4,940,049                                  |
|   | \$ 25,648,779                                 | \$ 13,593,562                              |
| <br><b>LIABILITIES</b>                            |   |  |
| <b>Current</b>                                    |   |  |
| Accounts payable and accrued liabilities (Note 9) | \$ 1,542,004                                  | \$ 316,914                                 |
| <br><b>SHAREHOLDERS' EQUITY</b>                   |   |  |
| <b>Common shares</b> (Notes 4 and 5(a))           | \$ 26,565,117                                 | \$ 13,315,518                              |
| <b>Common share purchase warrants</b> (Note 5(b)) | 277,333                                       | 1,147,751                                  |
| <b>Stock options</b> (Note 5(c))                  | 1,746,075                                     | 703,626                                    |
| <b>Deficit</b>                                    | (4,481,750)                                   | (1,890,247)                                |
|   | 24,106,775                                    | 13,276,648                                 |
|   | \$ 25,648,779                                 | \$ 13,593,562                              |

Basis of Presentation (Note 2)

See accompanying notes to financial statements.

**VAALDIAM RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**  
**(UNAUDITED)**

|   | <b>Three Months Ended Sept. 30</b> |                              | <b>Nine Months Ended Sept. 30</b> |                              |
|---|------------------------------------|------------------------------|-----------------------------------|------------------------------|
|   | <b><u>2006</u></b>                 | <b><u>2005</u></b>           | <b><u>2006</u></b>                | <b><u>2005</u></b>           |
| <b>Revenue</b>                                  | \$ -                               | \$ -                         | \$ -                              | \$ -                         |
| <b>Expenses</b>                                 |                                    |                              |                                   |                              |
| Corporate and general                           | (282,376)                          | (166,074)                    | (1,097,763)                       | (733,652)                    |
| Stock based compensation<br>(Note 5(c))         | -                                  | (163,343)                    | (1,277,465)                       | (232,771)                    |
| Write-off of exploration properties<br>(Note 7) | -                                  | (67,340)                     | (456,343)                         | (208,226)                    |
| Amortization                                    | (49,368)                           | (1,669)                      | (121,630)                         | (11,076)                     |
| Foreign exchange gain/(loss)                    | (11,355)                           | 7,823                        | (33,910)                          | 53,864                       |
| Total expenses (Note 3)                         | (343,099)                          | (390,603)                    | (2,987,111)                       | (1,131,861)                  |
| Less: Interest income                           | 149,398                            | 32,986                       | 395,608                           | 49,196                       |
| <b>Net loss</b>                                 | (193,701)                          | (357,617)                    | (2,591,503)                       | (1,082,665)                  |
| <b>Deficit, beginning of period</b>             | (4,288,049)                        | (1,608,044)                  | (1,890,247)                       | (882,996)                    |
| <b>Deficit, end of period</b>                   | <b><u>\$ (4,481,750)</u></b>       | <b><u>\$ (1,965,661)</u></b> | <b><u>\$ (4,481,750)</u></b>      | <b><u>\$ (1,965,661)</u></b> |
| Basic and diluted loss per share                | \$ 0.00                            | \$ 0.00                      | \$ (0.037)                        | \$ (0.02)                    |

See accompanying notes to financial statements.

**VAALDIAM RESOURCES LTD.**

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

|  | <b>Three Months Ended Sept. 30</b> |                     | <b>Nine Months Ended Sept. 30</b> |                     |
|--|------------------------------------|---------------------|-----------------------------------|---------------------|
|  | <b><u>2006</u></b>                 | <b><u>2005</u></b>  | <b><u>2006</u></b>                | <b><u>2005</u></b>  |
| <b>Operating Activities</b>  |                                    |                     |                                   |                     |
| Net loss for the period  | \$ (193,701)                       | \$ (357,617)        | \$ (2,591,503)                    | \$ (1,082,665)      |
| Amortization   | 49,368                             | 1,669               | 121,630                           | 11,076              |
| Write-off of exploration properties (Note 7)   | -                                  | 67,340              | 456,343                           | 208,226             |
| Stock-based compensation (Note 5(c))   | -                                  | 163,343             | 1,277,465                         | 232,771             |
|  | <u>(144,333)</u>                   | <u>(125,265)</u>    | <u>(736,065)</u>                  | <u>(630,592)</u>    |
| Change in non-cash components of working capital   |                                    |                     |                                   |                     |
| Sundry receivables and prepayments   | (104,564)                          | (10,503)            | (269,236)                         | (46,102)            |
| Accounts payable and accrued liabilities   | 1,075,562                          | (5,050)             | 1,225,090                         | (103,444)           |
|  | <u>970,998</u>                     | <u>(15,553)</u>     | <u>955,854</u>                    | <u>(149,546)</u>    |
|  | <u>826,665</u>                     | <u>(140,818)</u>    | <u>219,789</u>                    | <u>(780,138)</u>    |
| <b>Investing Activities</b>  |                                    |                     |                                   |                     |
| Purchase of equipment  | (184,703)                          | (38,607)            | (309,391)                         | (297,068)           |
| Mineral exploration expenditures (Note 7)  | (2,136,174)                        | (1,162,849)         | (4,563,112)                       | (2,410,372)         |
|  | <u>(2,320,877)</u>                 | <u>(1,201,456)</u>  | <u>(4,872,503)</u>                | <u>(2,707,440)</u>  |
| <b>Financing Activity</b>  |                                    |                     |                                   |                     |
| Net proceeds from issuance of common shares and common share purchase warrants (Note 5(a)) | -                                  | 2,006,811           | 12,144,166                        | 9,671,472           |
| <b>Increase (decrease) in cash</b>   | <u>(1,494,212)</u>                 | <u>664,537</u>      | <u>7,491,452</u>                  | <u>6,183,894</u>    |
| <b>Cash and cash equivalents, beginning of period</b>                                      | <u>17,135,122</u>                  | <u>7,764,865</u>    | <u>8,149,458</u>                  | <u>2,245,508</u>    |
| <b>Cash and cash equivalents, end of period</b>  | <u>\$ 15,640,910</u>               | <u>\$ 8,429,402</u> | <u>\$ 15,640,910</u>              | <u>\$ 8,429,402</u> |

See accompanying notes to financial statements.

**VAALDIAM RESOURCES LTD.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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 nine months ended September 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, its 99.999% Brazil incorporated subsidiary Mineração Paraguaçu Indústria e Comércio Ltda. (“MPIC”) and MPIC’s 99.9% owned subsidiary Mineração Montes Claros Ltda.

**3. ANALYSIS OF EXPENSES**

During the nine months ended September 30, 2006, the Company’s expenses and property write down amounted to \$2,987,111 and for the nine months ended September 30, 2005 total expenses and property write down were \$1,131,861, analysed as follows.

|   | <b>Nine Months Ended September 30</b> |                    |
|---|---------------------------------------|--------------------|
|   | <b><u>2006</u></b>                    | <b><u>2005</u></b> |
| Stock based compensation                          | \$ 1,277,465                          | \$ 232,771         |
| Administration                                    | 335,388                               | 223,259            |
| Investor relations                                | 194,996                               | 140,866            |
| General travel                                    | 7,369                                 | 7,175              |
| Audit related fees                                | 42,080                                | 40,400             |
| Health insurance                                  | 30,714                                | 22,452             |
| General legal fees                                | 25,714                                | 20,478             |
| Stationery and printing                           | 13,992                                | 27,670             |
| Telephone and fax                                 | 19,009                                | 10,135             |
| Sundry expenses                                   | 35,727                                | 18,855             |
| Project development                               | 6,688                                 | -                  |
| Directors’ fees and performance bonuses           | 43,200                                | 125,500            |
| TSX listing expenses                              | 120,322                               | -                  |
| Registrar’s fees                                  | 12,912                                | 9,039              |
| Annual meeting expenses (including annual report) | 54,653                                | 19,752             |
| Office rent                                       | 49,273                                | 38,684             |
| Filing fees                                       | 37,878                                | 9,018              |
| Insurance   | 19,508                                | 9,810              |
| Amortization                                      | 121,630                               | 11,076             |
| Capital tax                                       | 4,991                                 | -                  |

|                                   |                     |                     |
|-----------------------------------|---------------------|---------------------|
| Foreign exchange (gain) loss      | 33,910              | (53,864)            |
| Tax on unspent flow-through funds | 43,349              | 10,559              |
| Property write down               | 456,343             | 208,226             |
|                                   | <u>\$ 2,987,111</u> | <u>\$ 1,131,861</u> |

#### 4. RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows for the nine months ended September 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 \$43,200 were paid during the first nine months. During the nine months ended September 30, 2006, Vaaldiam's Brazilian subsidiary MPIC paid approximately \$28,700 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 (Note 4)  | -                 | 133,284              |
| Private placements (net of share issue costs of \$995,326 including brokers' warrants 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, September 30, 2006  | 81,399,352        | \$ 26,565,117        |

- (i) During the nine months ended September 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 nine months ended September 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, September 30, 2006    | 495,238         | \$ 277,333     |
|                                | <hr/>           | <hr/>          |

The following is a summary of the unexercised warrants as at September 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<br/>Average<br/>Exercise Price</u> | <u>Deemed Value<br/>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 September 30, 2006 | 4,448,750     | \$ 0.64  | \$ 1,746,075                        |

| <u>Exercise Price</u> | <u>Outstanding<br/>September 30, 2006</u> | <u>Weighted Av. Life<br/>(Years)</u> |
|-----------------------|---|--------------------------------------|
| \$ 0.29               | 18,750                                    | 0.003                                |
| 0.50                  | 1,330,000                                 | 0.641                                |
| 0.50                  | 150,000                                   | 0.081                                |
| 0.45                  | 525,000                                   | 0.351                                |
| 0.40                  | 40,000                                    | 0.029                                |
| 0.50                  | 55,000                                    | 0.045                                |
| 0.85                  | 100,000                                   | 0.086                                |
| 0.75                  | 2,105,000                                 | 2.034                                |
| 1.37                  | 75,000                                    | 0.077                                |
| 0.97                  | 50,000                                    | 0.053                                |
|                       | <hr/>                                     | <hr/>                                |
|                       | 4,448,750                                 | 3.400                                |
|                       | <hr/>                                     | <hr/>                                |

During the nine months ended September 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:

**September 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 SEPTEMBER 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    |
| <hr/>   |            |
| Fully diluted shares outstanding              | 86,343,340 |

**7. EXPLORATION PROPERTIES**

| <u>Property</u>                        | <u>Balance</u><br><u>Jan. 1, 2006</u> | <u>Additions</u>         | <u>Balance</u><br><u>Sept. 30, 2006</u> |
|--|---------------------------------------|--------------------------|---|
| Pimenta Bueno - Brazil                 | \$ 2,315,736                          | \$ 996,442               | \$ 3,312,178                            |
| Brauna - Brazil                        | 474,316                               | 994,420                  | 1,468,736                               |
| Duas Barras - Brazil                   | 1,363,914                             | 1,400,517                | 2,764,431                               |
| Aroeira - Brazil                       | -                                     | 111,710                  | 111,710                                 |
| Haute Kotto - Central African Republic | 340,473                               | 254,555                  | 595,028                                 |
| Hotish - Canada                        | 445,610                               | (445,610) <sup>(1)</sup> | -                                       |
| Artemisia – Canada                     | -                                     | 794,735                  | 794,735                                 |
|  | <hr/>                                 | <hr/>                    | <hr/>                                   |
|  | \$ 4,940,049                          | \$ 4,106,769             | \$ 9,046,818                            |

<sup>(1)</sup> Property written off including an additional \$10,733 of exploration expenditures incurred during the nine months ended September 30, 2006.

Under the terms of an agreement with a subsidiary of Ashton Mining of Canada Inc. (“Ashton”) concluded in July 2006, Vaaldiam has an exclusive option to acquire a 40% joint venture interest in the Artemisia property in the Coronation Gulf area in Nunavut, Canada by spending a total of \$3.0 million on exploration of the property 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, 65,000 not later than April 1, 2007 and 130,000 not later than April 1, 2008. No shares have as yet been issued under the Option Agreement.

**8. FLOW-THROUGH SHARES AND COMMITMENTS**

As at September 30, 2006, the Company was obligated to incur \$529,462 in eligible Canadian Exploration Expenses prior to December 31, 2006 and \$500,001 prior to December 31, 2007.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as at September 30, 2006 included a provision of \$525,611 with regard to amounts owed to Rio Tinto for Vaaldiam's 49% share of exploration expenditures incurred by Rio Tinto on Vaaldiam's behalf, \$279,890 of exploration expenses owed in relation to the Artemesia property and \$403,859 being an advance received from a joint venture partner in relation to exploration expenses to be incurred in the Brauna project.