

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

DECEMBER 31, 2006 AND 2005

CONTENTS

	PAGE
AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Loss and Deficit	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 29

AUDITORS' REPORT

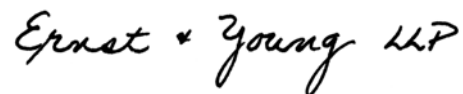
To the Shareholders of
Vaaldiam Resources Ltd.
(A Development Stage Entity)

We have audited the consolidated balance sheet of Vaaldiam Resources Ltd. (a Development Stage Entity) as at December 31, 2006 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2005 were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated March 31, 2006.



Ernst & Young LLP
Chartered Accountants
March 16, 2007

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2006 AND 2005

ASSETS

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
CURRENT			
Cash and cash equivalents		\$ 12,318,783	\$ 6,817,542
Restricted cash	15(b)	429,300	1,331,916
Sundry receivables and prepayments		224,963	134,451
TOTAL CURRENT ASSETS		<u>12,973,046</u>	<u>8,283,909</u>
PROPERTY AND EQUIPMENT	4	819,202	369,604
ASSETS UNDER CONSTRUCTION	5	601,834	-
EXPLORATION PROPERTIES	6	10,468,100	4,940,049
		<u>\$ 24,862,182</u>	<u>\$ 13,593,562</u>

LIABILITIES

CURRENT			
Accounts payable and accrued liabilities	7	\$ 1,517,336	\$ 316,914

SHAREHOLDERS' EQUITY

MINORITY INTEREST IN EQUITY		<u>168,778</u>	<u>-</u>
COMMON SHARES	8(a)	26,437,578	13,315,518
COMMON SHARE PURCHASE WARRANTS	8(b)	277,333	1,147,751
STOCK OPTIONS	8(c)	1,868,910	703,626
DEFICIT		<u>(5,407,753)</u>	<u>(1,890,247)</u>
		<u>23,176,068</u>	<u>13,276,648</u>
TOTAL SHAREHOLDERS' EQUITY		<u>23,344,846</u>	<u>13,276,648</u>
		<u>\$ 24,862,182</u>	<u>\$ 13,593,562</u>

COMMITMENTS AND CONTINGENCIES	6 and 15
SUBSEQUENT EVENTS	6 and 16

See accompanying notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:



Director



Director

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
EXPENSES			
Corporate and general		\$ 1,453,089	\$ 968,299
Stock-based compensation	8(c)	1,418,100	232,771
Amortization		167,758	95,915
Loss on foreign exchange		16,068	12,296
		<u>3,055,015</u>	<u>1,309,281</u>
Less: Interest income		<u>523,464</u>	<u>97,132</u>
		<u>2,531,551</u>	<u>1,212,149</u>
LOSS BEFORE THE FOLLOWING		(2,531,551)	(1,212,149)
OTHER EXPENSES			
Write-off of exploration properties	6	<u>(1,165,678)</u>	<u>(283,881)</u>
LOSS BEFORE INCOME TAXES		(3,697,229)	(1,496,030)
INCOME TAX RECOVERY	10	<u>180,600</u>	<u>488,779</u>
NET LOSS BEFORE MINORITY INTEREST		(3,516,629)	(1,007,251)
MINORITY INTEREST		<u>(877)</u>	<u>-</u>
NET LOSS FOR THE YEAR		(3,517,506)	(1,007,251)
DEFICIT, beginning of year		<u>(1,890,247)</u>	<u>(882,996)</u>
DEFICIT, end of year		<u>\$ (5,407,753)</u>	<u>\$ (1,890,247)</u>
Basic and diluted loss per share	9	<u>\$ (0.044)</u>	<u>\$ (0.018)</u>

See accompanying notes to consolidated financial statements.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net loss for the year	\$ (3,517,506)	\$ (1,007,251)
Amortization	167,758	95,915
Write-off of exploration properties	1,165,678	283,881
Stock-based compensation	1,418,100	232,771
Future income tax recovery	(180,600)	(488,779)
Minority interest	877	-
	<u>(945,693)</u>	<u>(883,463)</u>
Change in non-cash components of working capital		
Sundry receivables and prepayments	(90,512)	(87,637)
Accounts payable and accrued liabilities	72,416	(199,791)
	<u>(18,096)</u>	<u>(287,428)</u>
Cash provided by (used in) operating activities	<u>(963,789)</u>	<u>(1,170,891)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,219,190)	(354,753)
Mineral exploration expenditures	(5,565,723)	(3,233,508)
Restricted cash	902,616	(903,205)
Cash used in investing activities	<u>(5,882,297)</u>	<u>(4,491,466)</u>
FINANCING ACTIVITIES		
Net proceeds from issuance of common shares and common share purchase warrants	12,179,426	10,663,102
Proceeds from issuance of shares in subsidiary to minority interest	167,901	-
Cash provided by financing activities	<u>12,347,327</u>	<u>10,663,102</u>
CHANGES IN CASH AND CASH EQUIVALENTS	5,501,241	5,000,745
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,817,542</u>	<u>1,816,797</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 12,318,783</u>	<u>\$ 6,817,542</u>
Cash and cash equivalents are comprised of the following:		
Cash	\$ 1,681,050	\$ 1,276,579
Short-term investments	10,637,733	5,540,963
	<u>\$ 12,318,783</u>	<u>\$ 6,817,542</u>

Supplementary cash flow information (Note 14)

See accompanying notes to consolidated financial statements.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

1. NATURE OF OPERATIONS

Vaaldiam Resources Ltd. (a development stage entity) (the “Company”) is a publicly held company 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. The recoverability of the amounts shown for exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned revenue and is considered to be in the development stage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its 99.999% owned subsidiary, Vaaldiam do Brasil Mineração Ltda. (“VBM”), formerly Mineração Paraguaçu Indústria e Comércio Ltda., VBM’s 99.9% owned subsidiary, Mineração Montes Claros Ltda. (“Montes Claros”) and VBM’s 60.0% owned subsidiary Cajueiro Mineração S.A (“Cajueiro”), all incorporated in Brazil. All inter-company balances and transactions have been eliminated on consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand, bank balances and all highly liquid short-term investments. The Company considers all highly liquid short-term investments with a maturity of three months or less at the date of purchase to be cash equivalents.

(c) Property and Equipment

The Company’s property and equipment is recorded at cost and is amortized over the useful life of the assets as follows:

Leasehold improvements	-	30%, declining balance basis
Exploration machinery	-	30%, declining balance basis
Vehicles	-	30%, declining balance basis
Furniture and fixtures	-	20%, declining balance basis
Computers	-	30%, declining balance basis

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Assets Under Construction

The Company's assets under construction are recorded at cost and are transferred to property and equipment together with any pre-production revenues at the commencement of commercial production.

(e) Exploration Properties

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge would be made.

The recoverability of the carrying value of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing or other means to complete development of the properties, and the future profitable production or proceeds from the disposition of the properties.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

(f) Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates and laws expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Stock-based Compensation

The Company has a stock-based compensation plan, which is described in Note 8(c). The Company accounts for all stock-based payments using the fair value method, calculated based on the Black-Scholes valuation model. Under this method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized at that date if the options granted vest immediately. Options normally vest immediately under Company policy. As the amount of compensation cost amortized is offset by a credit to stock options in the shareholders' equity account, the compensation cost amortized has therefore no effect on total shareholders' equity.

(h) Loss Per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The treasury stock method is used to calculate diluted loss per share. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding assuming that options and warrants, with average market prices for the year greater than their exercise prices, were exercised and the proceeds used to repurchase common shares.

(i) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, particularly mineral properties, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(j) Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that the carrying amount is not recoverable, an impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Asset Retirement Obligations

The Company accrues the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. Upon settlement of the liability, a gain or loss is recorded.

(l) Foreign Currency Translation

The Company's foreign subsidiaries are operationally and financially dependent and as such, are translated using the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the historical rate of exchange. Revenues and expenses are translated into Canadian dollars at the annual average exchange rates. Foreign currency gains and losses are recognized in the consolidated statements of loss and deficit.

The Company's foreign currency balances and transactions are translated under the same method as its subsidiary.

(m) Flow-Through Common Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issuance of such shares have been credited to share capital and the related exploration costs are deferred to exploration properties when incurred. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

3. NEW ACCOUNTING POLICIES

Effective January 1, 2006, the Company adopted four new Canadian Institute of Chartered Accountants' standards related to financial instruments. Adoption of these standards had no impact on the consolidated financial statements of the Company for 2006.

(a) Financial Instruments – Recognition and Measurement (Section 3855)

This standard specifies when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and what measures are to be used, and how gains and losses in respect of these financial instruments are to be presented.

(b) Financial Instruments – Disclosure and Presentation (Section 3861)

This standard specifies the presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed.

(c) Hedges (Section 3865)

This standard specifies how hedge accounting is to be applied and what disclosures are to be required.

(d) Comprehensive Income (Section 1530)

This standard specifies how comprehensive income is to be reported and presented. Comprehensive income is the change in shareholders' equity of a company other than those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

4. PROPERTY AND EQUIPMENT

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Leasehold improvements	\$ 140,979	\$ 19,740	\$ 43,021	\$ 2,735
Exploration machinery	591,109	138,196	239,190	50,474
Vehicles	221,902	91,089	126,854	54,838
Furniture and fixtures	73,192	16,019	36,890	6,185
Computers	90,782	33,718	54,653	16,772
	<u>\$ 1,117,964</u>	<u>\$ 298,762</u>	<u>\$ 500,608</u>	<u>\$ 131,004</u>
Net book value	<u>\$819,202</u>		<u>\$369,604</u>	

5. ASSETS UNDER CONSTRUCTION

During 2006, construction of the Duas Barras mine began, with a diamond recovery plant and infrastructure being built. Commissioning is scheduled for the second quarter of 2007.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES

	<u>Balance</u> <u>December 31,</u> <u>2004</u>	<u>Additions</u> <u>2005</u>	<u>Balance</u> <u>December 31,</u> <u>2005</u>	<u>Additions</u> <u>2006</u>	<u>Balance</u> <u>December 31,</u> <u>2006</u>
Brazil					
a. Pimenta Bueno Property					
Acquisition Cost	\$ -	\$ -	\$ -	\$ 265,311	\$ 265,311
Exploration expenditures	1,327,836	987,900	2,315,736	1,194,647	3,510,383
	<u>1,327,836</u>	<u>987,900</u>	<u>2,315,736</u>	<u>1,459,958</u>	<u>3,775,694</u>
b. Brauna Property					
Acquisition Cost	-	411,000	411,000	-	411,000
Exploration expenditures	-	63,316	63,316	1,309,618	1,372,934
	<u>-</u>	<u>474,316</u>	<u>474,316</u>	<u>1,309,618</u>	<u>1,783,934</u>
c. Duas Barras Property					
Acquisition Cost	33,899	-	33,899	-	33,899
Exploration expenditures	-	1,330,015	1,330,015	2,036,388	3,366,403
	<u>33,899</u>	<u>1,330,015</u>	<u>1,363,914</u>	<u>2,036,388</u>	<u>3,400,302</u>
d. Aroeira Area					
Acquisition Cost	-	-	-	111,710	111,710
e. Alto Paraguai Area					
Exploration expenditures	28,173	(28,173)	-	-	-
f. Colorado do Oeste Area					
Exploration expenditures	28,173	(28,173)	-	-	-
	<u>28,173</u>	<u>(28,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Canada					
g. Coronation Gulf Property					
Exploration expenditures	-	-	-	1,396,460	1,396,460
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,396,460</u>	<u>1,396,460</u>
h. Hotish Mountain Property ⁽¹⁾					
Acquisition Cost	-	14,500	14,500	(14,500)	-
Exploration expenditures	-	431,110	431,110	(431,110)	-
	<u>-</u>	<u>445,610</u>	<u>445,610</u>	<u>(445,610)</u>	<u>-</u>
i. Otish Property					
Acquisition Cost	15,750	(15,750)	-	-	-
Exploration expenditures	95,101	(95,101)	-	-	-
	<u>110,851</u>	<u>(110,851)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Central African Republic					
j. CAR-Haute Kotto Property ⁽²⁾					
Exploration expenditures	51,909	288,564	340,473	(340,473)	-
k. CAR-Kimberlite Project					
Exploration expenditures	87,499	(87,499)	-	-	-
Total Exploration Properties	<u>\$ 1,668,340</u>	<u>\$ 3,271,709</u>	<u>\$ 4,940,049</u>	<u>\$ 5,528,051</u>	<u>\$ 10,468,100</u>

⁽¹⁾ Property written off included an additional \$10,733 of exploration expenditures incurred during 2006.

⁽²⁾ Property written off included an additional \$368,862 of exploration expenditures incurred during 2006.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES (CONTINUED)

BRAZILIAN PROPERTIES

(a) Pimenta Bueno Property

The Pimenta Bueno property, located in the southeastern part of the state of Rondonia, Brazil, consists of exploration permits and mining concessions in two blocks, covering an area of approximately 247,085 hectares in total. Exploration is being conducted for the discovery of diamond bearing kimberlites which can be economically developed.

In November 2003, the Company reached an agreement with Rio Tinto Desenvolvimento Minerais Ltda. ("RTDM"), whereby RTDM was granted a right to exercise an option to earn a 51% interest in either or both of the Northern and Southern Blocks, following a due diligence review of the exploration results generated during the Company's initial phase of exploration between December 2003 and January 2005.

In June 2005, RTDM exercised its option to acquire a 51% interest in the Southern and Northern Blocks. Pursuant to the agreement, RTDM would acquire the 51% interest in the Southern Block by spending a total of US\$5,000,000 on exploration over a three year period. RTDM would also acquire a 51% interest in the Northern Block by spending a total of US\$7,500,000 over three years. As RTDM's expenditures on the Southern Block exceeded US\$5,000,000 on a cumulative basis during 2006, it earned a 51% interest in the Southern Block and the Company is obligated to share 49% of the total expenditures over US\$5,000,000 in the Southern Block to maintain the Company's interest.

The agreement also provides RTDM 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 feasibility study would have to be sufficiently comprehensive to enable the Company to seek bank financing for its interest in the joint venture. The Company also has the exclusive right to develop any kimberlite or alluvial diamond deposits within the property which do not meet the development criteria of RTDM. In this regard, the Company has the exclusive right to market diamond production from any kimberlite or alluvial diamond deposit it has developed for its own account.

In June 2006, the Company also acquired additional geological data in respect of the Pimenta Bueno property from De Beers Brasil Ltda. ("De Beers") at a cost of US\$237,500.

(b) Brauna Property

The Brauna property is located in the state of Bahia, Brazil and is comprised of three exploration concessions, covering an area of approximately 4,910 hectares. It encompasses 17 known kimberlite occurrences consisting of four pipes associated with an extensive kimberlite dyke system.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES (CONTINUED)

The Company acquired a 60% interest in the Brauna property in August 2005 under the terms of a purchase agreement with Majescor Resources Inc. (“Majescor”) whereby the Company 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, the Company issued a total of 150,000 common shares to Majescor. The Company and Majescor agreed to explore the property pursuant to a joint venture agreement.

The joint venture agreement dated October 31, 2005 provided that the Company’s Brazilian subsidiary VBM would own 60% of the joint venture with Majescor owning 40%. Should either party fail to provide its share of exploration expenditures on the Brauna property then that party’s interest in the joint venture company would decline in accordance with an agreed formula. The shareholders of the joint venture company are entitled to appoint one director to the board of the joint venture company for each whole 20% interest held. Under the joint venture agreement the Company was appointed as manager of operations, which manager would be paid a fee of 10% of exploration expenditures incurred in accordance with the adopted exploration budget. In September 2006, Cajueiro became the joint venture company owning the Brauna property, with Cajueiro owned as to 60% by VBM and 40% by Majescor.

See Subsequent Events Note 16(b).

(c) Duas Barras Property

The Duas Barras property is an alluvial diamond property located 150 kilometres north of the town of Diamantina in the state of Minas Gerais, Brazil. The Mining Licence covers an area of 170.89 hectares along a five kilometre length of the Jequitinhonha River.

In January 2005, VBM entered into an option agreement to acquire a 70% interest in the Duas Barras property from Mineraçao Marly Ltda. (“Marly”). Under the agreement, should VBM exercise the option, it would be required to pay US\$150,000 to Marly within 10 days of Marly assigning all rights, title and interest in the Mineral Rights of the property to the joint venture to be subsequently formed. VBM would also 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 VBM the option to acquire its 30% interest in the joint venture at any time in return for a payment of US\$1,000,000. In addition, the agreement provided 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.

On December 22, 2005 the Company exercised its option to acquire the 70% interest in the Duas Barras property. On January 31, 2006 this interest was increased to 75% by an advance payment of US\$50,000 to Marly.

By an agreement dated November 24, 2006 the Company exercised its option to acquire the remaining 25% interest in accordance with the terms of the original agreement. Payment terms of the full consideration of US\$1,100,000 are as follows:

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

- 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;
- 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 based on 0.2% of the gross revenue from the sale of diamonds and 1% of gross revenue from the sale of gold.

In February 2007, a temporary Licence of Operation was granted by FEAM, which, together with the Mining Licence, allows Montes Claros, as operator, to commence mining operation. In February 2007, Marly submitted an application for the assignment of the Mining Licence to Montes Claros, and US\$200,000 was paid to Marly in the same month.

Construction of the infrastructure and plant at the Duas Barras mine commenced towards the end of 2006. Commissioning is expected to commence towards the end of the first quarter 2007, and production is expected to commence during the second quarter of 2007.

(d) Aroeira Area

In June 2006, the Company entered into an agreement with De Beers to acquire at a cost of US\$100,000 De Beer’s exploration dataset for the Traira diamond district in northern Mato Grosso state, together with a claim owned by De Beers in the area covered by the dataset. As a result of environmental restrictions, De Beers was unable to transfer ownership of the claim to the Company. In November 2006, De Beers offered and the Company accepted an additional dataset for the Aroeira diamond district in Bahia state, to offset the inability to transfer ownership of the Traira claim to the Company. The Aroeira dataset covers an area of approximately 165,000 hectares and includes exploration results from 645 samples. The Company has not conducted any material exploration work on the Aroeira district to date.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES (CONTINUED)

- (e) Alto Paraguai and
and (f) Colorado do Oeste Areas

In August 2004, the Company negotiated an option agreement with RTDM, whereby the Company acquired certain diamond geological data from RTDM relating to the Alto Paraguai area, situated in the state of Mato Grosso in Brazil, and the Colorado do Oeste area located in the state of Rondonia in Brazil.

In 2005, following a review of exploration results to date, a decision was reached to write off the expenditures associated with these projects in the amount of \$68,903.

CANADIAN PROPERTIES

- (g) Coronation Gulf Property

The Coronation Gulf property, which covers an area of 91,400 hectares and is situated 500 kilometres north of Yellowknife and 50 kilometres south of the Coronation Gulf, is owned 100% by a wholly-owned subsidiary of Ashton Mining of Canada Inc. ("Ashton").

In July 2006, the Company reached an agreement with Ashton under which the Company has an exclusive option to acquire a 40% joint venture interest in the Coronation Gulf property 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 the Company issue Ashton a total of 195,000 of its common shares over the three-year term of the option: 65,000 shares not later than April 1, 2007, and 130,000 shares not later than April 1, 2008. No shares have as yet been issued under the Option Agreement. Under the agreement, a royalty of 1.5% of the gross proceeds from the sale of diamonds produced from the Artemisia property is payable to Ashton's wholly-owned subsidiary which owns the property.

In 2006, the Company collected a 100 tonne mini-bulk sample from the surface of the property which is currently being processed and had incurred exploration expenditures of \$1,396,460 up to December 31, 2006.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES (CONTINUED)

(h) Hotish Mountain Property

The Hotish Mountain property covers approximately 50,000 hectares about 100 kilometres south of the diamondiferous Renard kimberlite cluster.

In April 2005, the Company negotiated an option agreement with Dios Exploration Inc. (“Dios”) whereby the Company could earn a 51% interest in the Hotish Mountain property by incurring exploration expenditures of \$2,000,000 by April 2008. In addition, the Company was required to issue a total of 100,000 common shares to Dios. Of these, 25,000 shares were issued in 2005. Following a 30 day extension by Dios to review the sampling results, the Company notified Dios in May 2006 that, based on the 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 and written off, giving rise to a total of \$456,343 being written off in 2006.

i) Otish Property

The Otish property consisted of 169 unpatented mining claim blocks covering a combined 8,844 hectares.

In May 2004, the Company negotiated an agreement with Santoy Resources Ltd. (“Santoy”) to earn a 60% interest in Santoy’s Otish diamond property in Quebec by spending \$200,000 on exploration over a period of two years and issuing to Santoy a total of 100,000 common shares of the Company. Of these, 35,000 shares were issued in June 2004. During April 2005, following a technical review of exploration results to date, the option was terminated and all capitalized expenses related to the property in the amount of \$148,414 were written off, including \$37,563 of exploration expenditures incurred in 2005.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. EXPLORATION PROPERTIES (CONTINUED)

CENTRAL AFRICAN REPUBLIC PROPERTIES

(j) 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.

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, the Company decided that its cash resources should be concentrated on the Company's more advanced projects. As a result, the Company wrote off the exploration expenditures to December 31, 2006 associated with the properties in the amount of \$709,335.

(k) CAR-Kimberlite Project

The Company owned a 100% interest in the CAR-Kimberlite Project, a reconnaissance exploration program to identify primary diamond deposits in CAR. Because of a change in strategic emphasis, the project was written off during 2005 resulting in a one-time charge of \$66,564, net of concentrates sold to De Beers Consolidated Mines Limited for \$20,935.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at December 31, 2006 included a provision of \$942,665 with regard to amounts owed to RTDM for the Company's 49% share of exploration expenditures incurred by RTDM on the Company's behalf, and \$182,990 being an advance received from a joint venture partner in relation to exploration expenses to be incurred in the Brauna project.

8. CAPITAL STOCK

The authorized capital of the Company consists of an unlimited number of common shares.

(a) Common Shares Issued

	<u>Notes</u>	<u>Shares</u>	<u>Amount</u>
Balance, December 31, 2004		44,167,074	\$ 3,848,029
Warrants exercised (net of share purchase loan of \$20,494)	(i)	8,624,462	3,487,072
Allocated from warrants	8(b)	-	338,344
Private placements (net of share issue costs of \$820,937 including brokers' warrants of \$210,498 and future income tax adjustment of \$488,779))	(ii)	12,757,466	6,449,203
Allocated to warrants	(ii), 8(b)	-	(960,180)
Exercise of options	(iii)	95,000	27,550
Shares issued to option properties	(iv)	175,000	125,500
		<hr/>	
Balance, December 31, 2005		65,819,002	\$ 13,315,518
Warrants exercised	(v)	6,156,381	4,675,375
Allocated from warrants	8(b)	-	1,147,751
Repayment of share purchase loans to directors	11(b)	-	133,284
Interest received or accrued on share purchase loans	11(b)	-	10,261
Private placements (net of share issue costs of \$995,326 including brokers' warrants of \$277,333 and future income tax adjustment of \$180,600)	(vi)	8,253,969	6,324,073
Exercise of options	(vii)	1,220,000	578,500
Allocated from options	8(c)	-	252,816
		<hr/>	
Balance, December 31, 2006		81,449,352	\$ 26,437,578

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(a) Common Shares Issued (Continued)

(i) During 2005, the following warrants were exercised:

<u>Date of Issue</u>	<u>Exercised</u>	<u>Exercise Price</u>	<u>Proceeds</u>
07/10/2003	283,786	\$0.24	\$ 68,109
07/10/2003	1,345,788	\$0.29	390,279
11/4/2003	3,000,000	\$0.29	870,000
02/2/2004	888,889	\$0.65	577,778
03/3/2004	100,000	\$0.65	65,000
09/15/2004	2,599,999	\$0.50	1,279,506
09/15/2004	161,000	\$0.40	64,400
06/16/2005	125,000	\$0.80	100,000
06/16/2005	120,000	\$0.60	72,000
	<u>8,624,462</u>		<u>\$ 3,487,072</u>

During September 2005, the Company granted an interest free loan totalling \$20,494 to a director and officer which was used to acquire 40,987 common shares of the Company at \$0.50 per share from the exercise of a warrant. This loan was repaid in February 2006 (Note 11(b)).

(ii) In June 2005, the Company completed a private placement of 10,668,666 units at \$0.60 per unit for gross proceeds of \$6,401,200. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitled the holder to purchase one common share of the Company at \$0.80 per share. The warrants were to expire on December 16, 2006, however, these warrants contained a provision which permitted the expiry date to be accelerated in the event that the closing price of the Company's shares on the TSX Venture Exchange remained above \$1.00 for 21 consecutive trading days. This condition was met on February 24, 2006 and notice of the acceleration of the expiry date to April 3, 2006 was provided to all warrant holders. A value of \$960,180 was allocated to these warrants on issue.

In June 2005, the Company also issued 2,088,800 flow-through shares at \$0.65 per share for gross proceeds of \$1,357,720. A future income tax recovery of \$488,779 was recognized with respect to the issuance of these shares.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(a) Common Shares Issued (Continued)

The Company also issued 765,446 compensation options to the agents of the private placements completed in June 2005. Each option entitled the holder to acquire one common share of the Company at an exercise price of \$0.60 per share at any time until June 16, 2006. A value of \$210,498 was allocated to the options.

(iii) During 2005, the following options were exercised:

<u>Options Exercised</u>	<u>Exercise Price</u>	<u>Proceeds</u>
95,000	\$0.29	\$27,550

(iv) In April 2005, the Company negotiated an option agreement with Dios to earn a 51% interest in Dios's Hotish diamond property (Note 6(h)). During 2005, 25,000 common shares were issued to Dios in accordance with the option agreement.

In August 2005, the Company acquired a 60% interest in the Brauna diamond property (Note 6(b)) from Majescor for \$300,000 in cash and a total of 150,000 common shares of the Company.

(v) During 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
	<u>6,156,381</u>		<u>\$ 4,675,375</u>

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(a) Common Shares Issued (Continued)

- (vi) 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 Shares 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.

On March 24, 2006, following the issue of a final prospectus by the Company, each Common Share Special Warrant and each Flow-Through Share Special Warrant was automatically exercised into one Common Share and one Flow-Through Common Share of the Company respectively. In respect of the Flow Through Common Share, a future income tax recovery of \$180,600 has been recognized.

As part of the financing, the Company issued 495,238 common share purchase warrants to the agents of the private placement. Each warrant was exercisable for one common share of the Company at a price of \$0.90 at any time until February 9, 2007. A value of \$277,333 was allocated to the warrants.

- (vii) During 2006, the following options were exercised:

<u>Options Exercised</u>	<u>Exercise Price</u>	<u>Proceeds</u>
25,000	\$ 0.29	\$ 7,250
795,000	0.50	397,500
275,000	0.45	123,750
125,000	0.40	50,000
<hr/>		<hr/>
1,220,000		\$ 578,500
<hr/> <hr/>		<hr/> <hr/>

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(b) Common Share Purchase Warrants

	<u>Notes</u>	<u>Warrants</u>	<u>Amount</u>
Balance, December 31, 2004		8,731,067	\$ 315,417
Alignment adjustment ⁽ⁱ⁾		(3)	-
Issued in respect of the private placement	8(a)(ii)	5,334,333	960,180
Issued in respect of the private placement			
- Compensation options	8(a)(ii)	765,446	210,498
Expiration of purchase warrants		(50,000)	-
Exercise of purchase warrants	8(a)(i)	<u>(8,624,462)</u>	<u>(338,344)</u>
Balance, December 31, 2005		6,156,381	1,147,751
Issued in respect of the private placement			
- Brokers' warrants	8(a)(vi)	495,238	277,333
Exercise of purchase warrants	8(a)(v)	<u>(6,156,381)</u>	<u>(1,147,751)</u>
Balance, December 31, 2006		<u>495,238</u>	<u>\$ 277,333</u>

⁽ⁱ⁾ To align the warrants outstanding as at December 31, 2005 with the Company's warrant register.

The following is a summary of unexercised warrants, date of issue, exercise price and expiry date as at December 31, 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

On February 9, 2007 the 495,238 warrants expired unexercised.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(c) Stock Options

The Company maintains a stock option plan for directors, officers, employees and consultants of the Company. This plan was amended in June 2005, and under the amended plan, which requires approval by the shareholders on an annual basis, the maximum number of shares which may be issued under the plan cannot exceed 10% of the issued and outstanding common shares of the Company at the time of grant of any option. Since September 2005, all options have vested immediately upon issue.

	<u>2006</u>		<u>2005</u>	
	<u>Number</u>	<u>Weighted Average Price</u>	<u>Number</u>	<u>Weighted Average Price</u>
Options outstanding January 1	3,388,750	\$ 0.49	3,283,750	\$ 0.47
Issued during the year	2,230,000	0.78	200,000	0.68
Options exercised during the year	(1,220,000)	0.47	(95,000)	0.29
Options outstanding December 31	4,398,750	\$ 0.64	3,388,750	\$ 0.49

<u>Exercise Price</u>	<u>Outstanding and Exercisable December 31, 2006</u>	<u>Weighted Average Life (Years)</u>
\$ 0.29	18,750	0.00
\$ 0.40	40,000	0.03
\$ 0.45	525,000	0.33
\$ 0.50	1,330,000	0.57
\$ 0.50	100,000	0.05
\$ 0.50	55,000	0.04
\$ 0.75	2,105,000	1.94
\$ 0.85	100,000	0.08
\$ 0.97	50,000	0.05
\$ 1.37	75,000	0.07
	4,398,750	3.16

During 2006, the Company recognized a stock based compensation expense of \$1,418,100 (2005: \$232,771).

The weighted average fair value at the date of grant for options granted during 2006 was \$0.64.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

8. CAPITAL STOCK (CONTINUED)

(c) Stock Options (Continued)

The fair value of options included in the stock based compensation expense has been estimated using the Black-Scholes Option Pricing Model based on the following assumptions:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	3.9% - 4.3%	2.75%
Expected dividend yield	0.00%	0.00%
Expected share price volatility	77.5% - 80.7%	70.00%
Expected life of the options	5 years	5 years

The fair value of options outstanding at the end of the years are as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Number</u>	<u>Stock Option Value</u>	<u>Number</u>	<u>Stock Option Value</u>
Options outstanding January 1	3,388,750	\$ 703,626	3,283,750	\$ 470,855
Issued during the year	2,230,000	1,418,100	200,000	232,771
Options exercised during the year	(1,220,000)	(252,816)	(95,000)	-
Options outstanding December 31	<u>4,398,750</u>	<u>\$ 1,868,910</u>	<u>3,388,750</u>	<u>\$ 703,626</u>

As at December 31, 2006, the remaining number of common shares available for issuance under the stock option plan is 3,746,185.

9. LOSS PER SHARE

For the purpose of the determination of net loss per share, the basic diluted weighted average number of common shares outstanding for the year ended December 31, 2006 was 79,188,040 – net of 250,000 shares issued on share purchase loans (2005: 54,830,819 – net of 572,962 shares issued related to share purchase loans). The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding warrants and options since to do so would reduce the loss per share and would therefore be anti-dilutive.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

10. INCOME TAXES

The Company is subject to income taxes in both Canada and Brazil.

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 36.1% (2005 – 36.1%) to income before income taxes as follows:

	<u>2006</u>	<u>2005</u>
Expected income tax recovery using statutory income tax rates	\$ 1,216,000	\$ 540,000
Increase (decrease) in tax recovery resulting from:		
Stock based compensation	(512,000)	(84,000)
Stock issuance costs	141,000	89,000
Write down of capital property	(421,000)	-
	<u>424,000</u>	<u>545,000</u>
Tax benefit of losses not currently recognized	<u>(243,400)</u>	<u>(56,221)</u>
Future income tax provision	<u>\$ 180,600</u>	<u>\$ 488,779</u>

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2006 and 2005 are as follows:

Canada

	<u>2006</u>	<u>2005</u>
Non-capital losses	\$ 1,306,000	\$ 978,000
Undepreciated capital cost	50,000	38,000
Stock issuance costs	430,000	311,000
Cumulative eligible capital	35,000	35,000
Resource allowances	428,000	573,000
	<u>2,249,000</u>	<u>1,935,000</u>
Valuation allowances	<u>(2,249,000)</u>	<u>(1,935,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

Brazil

	<u>2006</u>	<u>2005</u>
Undepreciated capital cost	\$ 87,000	\$ 37,000
Valuation allowances	<u>(87,000)</u>	<u>(37,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

10. INCOME TAXES (CONTINUED)

The Company has non-capital/capital losses for income tax purposes in Canada of approximately \$3,618,000 which may be carried forward to reduce taxable income of future years. No provision has been made in these financial statements of the potential income tax savings on the application of these losses. These losses, if unapplied, would expire in future as follows:

2007	\$ 269,000
2008	80,000
2009	127,000
2010	34,000
2011	-
2012	-
2013	-
2014	657,000
2015	1,125,000
2016	1,326,000
	<u>\$ 3,618,000</u>

11. RELATED PARTY TRANSACTIONS

Transactions with related parties, all of which are recorded at the exchange amount which is the amount of consideration agreed upon by the related parties, are as follows:

(a) Amounts Paid or Payable

	<u>2006</u>	<u>2005</u>
Amount paid or payable to a company controlled by the President and Chief Executive Officer:		
Management and consulting fees	\$ 37,500	\$ 125,000
Performance bonus	-	75,000
	<u>⁽ⁱ⁾ \$ 37,500</u>	<u>⁽ⁱⁱ⁾ \$ 200,000</u>
Amount paid or payable to the Vice President, Chief Financial Officer and Corporate Secretary:		
Management and consulting fees	\$ -	\$ 108,750
Performance bonus	-	30,000
	<u>\$ -</u>	<u>\$ 138,750</u>

(i) \$18,750 is capitalized into properties and \$18,750 is expensed as corporate and general expenses.

(ii) \$100,000 is capitalized into properties and \$100,000 is expensed as corporate and general expenses.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

11. RELATED PARTY TRANSACTIONS (CONTINUED)

During 2005, the remuneration of the President and Chief Executive Officer and the Vice President, Chief Financial Officer and Corporate Secretary was paid as consulting fees. On April 1, 2006 the President and Chief Executive's remuneration basis changed to that of an employee while the remuneration basis of the Vice President, Chief Financial Officer and Corporate Secretary was that of employee from January 1, 2006.

During the year 2006, VBM paid \$38,503 to a major shareholder for accounting and administrative services provided to VBM (September-December 2005: \$12,577).

(b) Loans

During September 2004, the Company initially granted 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. Loans totalling \$112,790 were repaid in the first quarter of 2006 including interest thereon calculated at the Canadian prime rate plus 3% from January 1, 2006. The remaining loan of \$100,000, payable on demand and bearing interest at Canadian prime rate plus 3% since January 1, 2006, was subsequently repaid together with interest accruing thereon in March 2007. This loan was secured against 250,000 common shares of the Company, the market value of which was \$222,500 as at December 31, 2006

During September 2005, the Company initially granted an interest free loan of \$20,494 to a director and officer which was used to acquire 40,987 common shares of the Company from the exercise of a warrant. This loan was repaid in February 2006 (Note (8(a)(i))).

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, and is still outstanding as at December 31, 2006.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, sundry receivables and prepayments, and accounts payable and accrued liabilities on the consolidated balance sheets approximate fair values due to the short-term nature of these financial instruments.

13. SEGMENTED INFORMATION

The Company operates in one industry segment, namely mineral exploration. The Company's exploration activities are carried out in Brazil, Canada, and until 2006, the Central African Republic. For the list of these exploration properties, see Note 6.

**VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

14. SUPPLEMENTARY CASH FLOW INFORMATION

The following non-cash transactions are not reflected in the consolidated statements of the cash flow:

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Short-term loans granted to acquire common shares	8(a)(i), 11(b)	\$ -	\$ 20,494
Issuance of shares regarding properties	8(a)(iv)	-	125,500
Agents' warrants issued regarding private placements	8(a)(ii),(vi)	277,333	210,498
Expenditures made on exploration properties during the year that were unpaid at December 31		<u>1,128,006</u>	<u>196,582</u>

15. COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

Under the terms of the Company's office lease, the Company is committed to pay a minimum annual amount of approximately \$103,000 until November 30, 2009.

(b) Flow-Through Shares

As at December 31, 2006, the Company is obligated to incur approximately \$430,000 (2005: \$1,330,000) in eligible Canadian Exploration Expenditures prior to December 31, 2007, in order to complete obligations entered into pursuant to flow-through share purchase agreements.

Restricted cash represents cash held in a separate bank account which is to be spent on eligible flow-through activities.

(c) Duas Barras Property

In November 2006, an agreement had been reached with Marly to purchase the remaining interest in Duas Barras (Note 6(c)). Under the agreement, the Company is committed to pay amounts totalling US\$1,100,000, subject to the successful completion of certain milestones (Note 6(c)). Of these, a payment of the amount of US\$200,000 has been made in February 2007.

VAALDIAM RESOURCES LTD.
(A DEVELOPMENT STAGE ENTITY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

16. SUBSEQUENT EVENTS

(a) Options Granted

On January 24, 2007, 2,675,000 options to acquire common shares were granted to directors, officers, consultants and employees. Each option entitles the holder to purchase a common share of the Company at a price of \$0.85 on or prior to January 24, 2012.

(b) Purchase of 40% of Brauna from Majescor

On February 14, 2007, the Company signed a non-binding Letter of Intent with Majescor to acquire Majescor's 40% interest in the Brauna property, as a result of which the Company would own 100% of the Brauna diamond property.

In addition to Majescor's interest in the Brauna property, the Company may also acquire Majescor's interest in the Tres Marias property, located in the state of Minas Gerais, Brazil. The Tres Marias property is situated within the central part of the São Francisco Craton, and contains several priority kimberlite targets identified by De Beers.

Under the terms of the non-binding Letter of Intent relating to the Brauna interests, Majescor would receive the following:

- \$2,000,000 cash payment on closing;
- \$1,500,000 paid in common shares of the Company (based on a 20-day simple average stock price at the time of closing)
- 1% Gross Sales Royalty on diamond production from the Brauna property.

On March 1, 2007, an agreement relating to the Brauna acquisition was signed, and under the agreement, an amount of \$2,000,000, less the estimated amount of Brazilian withholding tax was paid to Majescor, together with 1,733,102 common shares of the Company, valued at \$1,500,000.

Due diligence is under way relating to the Tres Marias property.

(c) Coronation Gulf Property

As laboratory analysis of the 100 tonne mini-bulk sample has not been completed, Ashton granted the Company an extension from April 1, 2007 to May 1, 2007 of the date on which the Company would be obligated to issue 65,000 shares to Ashton.