

**BC FORM 51-901F**

<b>ISSUER DETAILS</b>		
NAME OF ISSUER DIADEM RESOURCES LTD.	FOR QUARTER ENDED November 30, 2003	DATE OF REPORT YY/MM/DD 2004/01/29
ISSUER ADDRESS 110 MEADOWVALE ROAD		
CITY/PROVINCE/POSTAL CODE TORONTO, ON M1C 1S1	ISSUER FAX NO. 416-286-0975	ISSUER TELEPHONE NO. 416-284-5959
CONTACT NAME PAUL A. CARROLL	CONTACT POSITION PRESIDENT	CONTACT TELEPHONE NO. 416-369-7217
CONTACT EMAIL ADDRESS <a href="mailto:info@diademresources.com">info@diademresources.com</a>	WEB SITE ADDRESS <a href="http://www.diademresources.com">www.diademresources.com</a>	
<b>CERTIFICATE</b>		
The <b>three</b> schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.		
DIRECTOR'S SIGNATURE ➤ "AIME BERTRAND"	PRINT FULL NAME AIME BERTRAND	DATE SIGNED YY/MM/DD 2004/01/29
DIRECTOR'S SIGNATURE ➤ "PAUL A. CARROLL"	PRINT FULL NAME PAUL A. CARROLL	DATE SIGNED YY/MM/DD 2004/01/29

**SCHEDULE A – UNAUDITED FINANCIAL STATEMENTS AS AT NOVEMBER 30, 2003**

**DIADEM RESOURCES LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
NOVEMBER 30, 2003**

**DIADEM RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Expressed in Canadian Dollars)	November 30 2003	May 31 2003
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and term deposits	55,477	3,820
Marketable securities	260	260
Prepaid expenses and receivables (Note 5)	107,082	7,313
	162,819	11,393
<b>Loan receivable</b> (Note 3)	290,000	-
<b>Mineral interests</b> (Note 4)	8,788,900	7,281,214
<b>Investment in mining syndicate and company</b> (Note 5)	20,000	20,000
<b>Capital assets</b> (Note 6)	3,034	3,511
<b>Other assets</b>	21	21
	9,264,774	7,316,139
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	764,239	435,104
Convertible debenture (Note 8)	500,000	500,000
	1,264,239	935,104
<b>Long-term debt</b> (Note 7)	290,000	-
	1,554,239	935,104
<b>CAPITAL STOCK AND DEFICIT</b>		
<b>Capital Stock</b> (Note 9)	25,879,494	24,721,494
<b>Contributed surplus</b>	23,200	23,200
<b>Series B First Preferred Shares</b> (Note 4(c))	384,248	-
<b>(Deficit)</b>	(18,576,407)	(18,363,659)
	7,710,535	6,381,035
	9,264,774	7,316,139

See accompanying notes to the consolidated financial statements

**DIADEM RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited)

(Expressed in Canadian Dollars)	Three months ended November 30		Six months ended November 30	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>REVENUE</b>				
Gain on sale of investment	125,000	1,435	125,000	1,435
Interest income	151	58	151	58
	125,151	1,493	125,151	1,493
<b>EXPENSES</b>				
Amortization	239	333	477	665
Capital tax	-	11,000	-	22,000
Costs associated with debt financing	58,000	4,838	58,000	7,761
Interest	15,724	15,231	31,596	30,681
General corporate costs	143,370	28,925	218,158	46,459
Foreign exchange (gain) loss	(332)	-	(332)	-
	217,001	60,327	307,899	107,566
<b>NET (LOSS) for the period</b>	(91,850)	(58,834)	(182,748)	(106,073)
Costs associated with issuance of capital stock	(30,000)	-	(30,000)	-
<b>(Deficit), beginning of period</b>	(18,454,557)	(14,472,096)	(18,363,659)	(14,424,857)
<b>(Deficit), end of period</b>	(18,576,407)	(14,530,930)	(18,576,407)	(14,530,930)
<b>Net (loss) per share</b>	(0.002)	(0.001)	(0.003)	(0.002)
<b>Weighted average number of shares</b>	63,208,854	56,505,483	60,779,497	56,173,487

See accompanying notes to the consolidated financial statements

**DIADEM RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Three months ended November 30		Six months ended November 30	
(Expressed in Canadian Dollars)	2003	2002	2003	2002
	\$	\$	\$	\$
<b>CASH FLOWS (USED IN) PROVIDED BY:</b>				
<b>OPERATING ACTIVITIES</b>				
Net (loss) for the period	(91,850)	(58,834)	(182,748)	(106,073)
Adjustment for items not affecting cash:				
Amortization	239	333	477	665
(Gain) loss on sale of marketable securities	-	200	-	(1,515)
Gain on sale of investment	(125,000)	-	(125,000)	-
Issuance of shares to settle costs associated with debt financing	58,000	-	58,000	-
Issuance of shares to settle interest expense	-	28,900	-	28,900
Write-down of marketable securities	-	279	-	279
	(158,611)	(29,122)	(249,271)	(77,744)
Net changes in non-cash working capital balances:				
Sundry receivable	308	1,804	231	(199)
Accounts payable and accrued liabilities	184,549	(4,577)	299,135	59,644
Cash flows provided by (used in) operating activities	26,246	(31,895)	50,095	(18,299)
<b>FINANCING ACTIVITIES</b>				
Common shares issued for cash	500,000	52,000	500,000	110,000
Long-term debt	290,000	-	290,000	-
Stock subscription receivable	-	(2,000)	-	(2,000)
Cash flows from financing activities	790,000	50,000	790,000	108,000
<b>INVESTING ACTIVITIES</b>				
Loan receivable	(290,000)	-	(290,000)	-
Proceeds from sale of investment	25,000	-	25,000	-
Mineral interests	(498,642)	(13,730)	(523,438)	(87,465)
Proceeds from sale of marketable securities	-	-	-	1,715
Cash flows (used in) investing activities	(763,642)	(13,730)	(788,438)	(85,750)
Change in cash during the period	52,604	4,375	51,657	3,951
<b>CASH, beginning of period</b>	2,873	1,404	3,820	1,828
<b>CASH, end of period</b>	55,477	5,779	55,477	5,779

See accompanying notes to the consolidated financial statements

**DIADEM RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
NOVEMBER 30, 2003  
(Unaudited)

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**1. GOING CONCERN**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and on the assumption that Diadem Resources Ltd. ("Diadem" or the "Company") will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business as a going concern.

There is uncertainty about the Company's ability to discharge its liabilities as they come due. The ability of the Company to continue as a going concern is dependent upon, among other things, being able to obtain additional financing, collection of outstanding loans, and attaining and maintaining positive operating cash flows.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These interim unaudited consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations for the three and six months ended November 30, 2003 are not necessarily indicative of the results expected for the full year.

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods set forth in the Company's audited consolidated financial statements as at and for the year ending May 31, 2003 and should be read in conjunction with those audited financial statements and notes thereto.

**3. LOAN RECEIVABLE**

Effective November 28, 2003, Diadem, on behalf of itself and Darnley Bay Resources Ltd. ("DBR") posted a bond to secure the application by Diadem and DBR for issue by the Department of Indian Affairs and Northern Development ("DIAND") of 65 exploration permits ("Permits") for approximately 2.9 million acres in the Northwest Territories south from the Inuvialuit Settlement Region to Great Bear Lake. The bond needs to be outstanding until June 1, 2005 for lands south of the 68<sup>th</sup> parallel and June 1, 2006 for lands north of the 68<sup>th</sup> parallel. The bond is refunded as the assessment work is completed and filed. Consequently, the bond will be totally released after completion of \$290,000 of assessment work. In addition, under the terms of the extended joint venture with DBR, DBR is responsible for 50% of the costs south of the 68<sup>th</sup> parallel. Therefore, DBR must refund \$98,310 of the bond by March 31, 2004 which amount would be repaid to the lender (See Note 7).

**4. MINERAL INTERESTS**

	November 30, 2003	May 31, 2003
	\$	\$
<i>Acquisition costs</i>		
Darnley Bay, Northwest Territories	630,000	
Leek Springs, California	3,007,211	3,007,211
Otish Mountains, Quebec	394,620	-
	<u>4,031,831</u>	<u>3,007,211</u>
<i>Deferred exploration costs</i>		
Leek Springs, California	4,299,521	4,274,003
Otish Mountains, Quebec	457,548	-
	<u>4,757,069</u>	<u>4,274,003</u>
	<u>8,788,900</u>	<u>7,281,214</u>

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(a) Darnley Bay

Effective November 26, 2003, the Company entered into an agreement to form a joint venture with DBR for diamond exploration in an area near Paulatuk in the Northwest Territories. The transaction results from an acquisition from Carnarvon Capital Corporation ("CCC") of that company's right to enter into the joint venture. To acquire the rights to form the joint venture, Diadem issued to CCC six million Diadem treasury shares, valued at \$600,000. The Hathaway Corporation provided an independent valuation of the transaction for a fee of \$30,000.

Paul Carroll, President and CEO of Diadem, also is President of CCC and all of its share capital is owned by members of his immediate family. As part of the transfer to Diadem of the Darnley Bay Resources transaction, CCC and Mr. Carroll have agreed that during the period until December 31, 2008 neither CCC nor Mr. Carroll would acquire a controlling interest in any diamond exploration or development project in Canada (or in California) other than through Diadem or with the consent of Diadem. This agreement would end if there is a change of control of Diadem or if Mr. Carroll is dismissed as President without cause or involuntarily ceases to be a director of Diadem.

Under the joint venture, Diadem will expend \$5 million on diamond exploration north of the 68<sup>th</sup> parallel ("project area") during the period to December 31, 2006. When that level of expenditure is completed, Diadem will be entitled to select up to 2.5 million acres of the project area for further exploration, and Diadem will have earned an undivided 50% participating interest in the selected lands, with DBR holding the other 50%. The Inuvialuit Development Corporation has the right to back into the project for a 10% working interest (with dilution to be shared equally by Diadem and DBR) when a decision is made to place a diamond mine into production and a positive feasibility study is completed.

If a decision is made to carry out a feasibility study on the lands selected by Diadem, it will have the right to fund the feasibility study, and if the property is placed into commercial production Diadem's interest will increase to 75% and the DBR's interest will decrease to 25%.

When Diadem has selected the area to which the 50/50 joint venture will apply, the parties will allocate at least \$2.5 million of the \$5 million to the selected lands. Diadem will be entitled to convert the balance of the \$5 million into treasury common shares of DBR at the then market price, subject to regulatory approval, or to convert that amount (in increments of at least \$1 million) into a diamond royalty equal to 1% for each full \$1 million spent and not allocated to the selected lands, with the balance to be taken in DBR shares. DBR will have the right to purchase any such royalty for \$1.5 million for each 1% of the royalty if the purchase is made within 90 days of completion of a bankable feasibility study, or thereafter for \$2.5 million if the purchase is within 90 days of the start of commercial production.

The agreement with DBR is subject to certain conditions including the approval of the Inuvialuit Development Corporation (which has been obtained), the acquisition of certain prospecting permits in the corridor, and the completion of a definitive agreement between the parties.

(b) Leek Springs, California

The Company currently has a 40% vested interest in and holds an option to acquire up to a 55% interest in 125 unpatented mining claims covering approximately 2,500 acres in the Leek Springs area of Eldorado County, California. This option was granted by the Silverstone Prospecting Syndicate ("SPS") which holds the remaining 60% interest in the mining claims.

(c) Otish Mountains, Quebec

Effective August 27, 2003, the Company formed a wholly-owned subsidiary, Diadem Explorations Inc. ("DEI"), to implement agreements entered into by the Company on July 24, 2003 with several companies to acquire an aggregate of 2,064 mining claims in the Otish Mountains region of Quebec. The acquisition of the claims was effected by issuing Series B First Preference Shares of DEI having a value equal to the staking costs and work carried out on the claims by the vendors. In addition, if a diamond mine is brought

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into commercial production on any claim, the Company will pay a 2% gross royalty to the vendor that vended in that claim. The Company has the right to acquire the royalty for \$1.5 million, if acquired within 90 days after completion of a bankable feasibility study or for \$2.5 million, if acquired within 12 months after commencement of commercial production.

The Series B First Preference Shares will be exchangeable, at any time after December 31, 2004 and up to December 31, 2006, into common shares of the Company at the option of either the Company or the vendor. The exchange price would be based upon the weighted average price of the Company's common shares during the three month period ended December 31, 2004.

**5. INVESTMENT IN MINING SYNDICATE AND COMPANY**

At November 30, 2003, Diadem owned 4.0 units (May 31, 2003-4.0 units) representing 8% (May 31, 2003-8%) of the outstanding units of the Silverstone Prospecting Syndicate.

Effective October 10, 2003, the Company sold 2,890,000 common shares of Waseco Resources Inc. ("Waseco") and \$225,000 of a \$450,000 demand note payable by Waseco to the Company. Consideration received was \$25,000 on closing and a further \$100,000 payable in four equal monthly instalments, commencing November 28, 2003. The purchaser has placed the Waseco shares in escrow pending payment of the unpaid balance.

The Company also has agreed to convert an additional \$225,000 note, plus interest accrued on both notes, into (i) a 2% NSR on production derived from the Tewah alluvial gold project in Indonesia to the extent of Waseco's 60% interest therein and (ii) a 2% gross diamond royalty on production derived from the Attawapiskat diamond claims optioned from Condor Diamonds to the extent of Waseco's interest therein. Waseco may re-purchase each of (i) and (ii) at any time up to commencement of commercial production of a mining operation for consideration of \$500,000 or thereafter up to the first anniversary of commercial production for consideration of \$1,000,000. Should Waseco decide to sell its interest in the Attawapiskat diamond claims, or to joint venture exploration or development thereof, it shall first offer it to Diadem.

After completion of this transaction, the Company owns 500,000 common shares of Waseco. At November 30, 2003, accounts receivable includes \$100,000 receivable from the purchaser.

**6. CAPITAL ASSETS**

	November 30, 2003		May 31, 2003	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Furniture and fixtures	24,992	24,101	891	989
Computer and office equipment	5,246	3,103	2,143	2,522
	<u>30,238</u>	<u>27,205</u>	<u>3,034</u>	<u>3,511</u>

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**7. LONG-TERM DEBT**

	November 30 <u>2003</u> \$	May 31 <u>2003</u> \$
First security interest in all of the assets of Diadem and by a first specific charge on all interest of Diadem in its joint venture with DBR; bearing simple interest at 10%	290,000	-

Interest is payable monthly on the first day of each month (commencing January 1, 2004) while the loan is outstanding in Diadem treasury common shares valued at \$0.10 per (See Note 14). Diadem may repay the principal amount of the loan in whole or in part at any time. All moneys received from DIAND as a result of the filing of assessment work on the lands to which the Permits relate will be applied first to reduce the principal amount of the loan and interest thereon and Diadem assigned such moneys to the lender as additional collateral for the loan. As consideration for arranging for the provision of the loan, Diadem issued 580,000 Diadem treasury common shares, valued at \$58,000, to the lender.

**8. CONVERTIBLE DEBENTURE**

The debenture is convertible in whole or in part at the option of the holder into common shares at any time on or before June 2, 2004 at a conversion price of \$0.10 per share (See Note 14). The debenture bears simple interest payable at the annual rate of 9.75%, payable monthly in cash or, at the option of the Company, in common shares valued at the greater of \$0.10 per share and the 10-trading day weighted average price of the common shares immediately prior to the payment date.

Included in interest expense is \$24,442 (2003-\$24,442) incurred in respect of the convertible debenture.

**9. SHAREHOLDERS' EQUITY**

(a) **Capital Stock**

Authorized capital stock of the Company consists of an unlimited number of special shares, redeemable and retractable at paid-up value and an unlimited number of common shares.

(b) **Issued and outstanding shares**

Details of issued and outstanding common shares are as follows:

	<u>Common shares</u>	
	<u>Number</u> #	<u>Amount</u> \$
<b>Balance, May 31, 2003</b>	58,376,546	24,721,494
Flow-through share issue	5,000,000	500,000
Loan arrangement fee	580,000	58,000
Acquisition of DBR joint venture	6,000,000	600,000
<b>Balance, November 30, 2003</b>	<b>69,956,546</b>	<b>25,879,494</b>

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(c) **Flow-through shares**

Effective September 8, 2003, the Company placed 5,000,000 flow-through common shares at a price of \$0.10 per share to raise gross proceeds of \$500,000. The net proceeds from the placement are being expended on exploration that qualifies for Canadian exploration expenses as defined in the Income Tax Act (Canada). The Company's exploration project qualifying for these expenditures is described in Note 4(c).

(d) **Share Option Plan**

The Company has a share option plan. At the annual general meeting of shareholders held November 27, 2003, the shareholders approved an increase in the aggregate number of common shares reserved for issuance under the stock option plan to 12,500,000 of which an aggregate of 7,410,000 are subject to options granted pursuant to the plan. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price is fixed by the board of directors of the Company at the time of grant, subject to all applicable regulatory requirements.

The following is a summary of the common shares that are subject to options currently outstanding:

<i>Expiry Date</i>	<i>Option Price</i> \$	<i>Number of Shares</i>
March 20, 2005	0.25	210,000
April 30, 2005	0.25	50,000
April 30, 2005	0.20	400,000
December 31, 2005	0.10	1,400,000
February 20, 2008	0.10	1,000,000
May 28, 2008	0.10	3,400,000
October 8, 2008	0.115	850,000
November 20, 2008	0.10	100,000
	0.112	7,410,000

On September 28, 2003, 150,000 options, exercisable at \$0.25 per share, expired without being exercised. On October 8 and October 16, 2003, the board of directors granted options to purchase 750,000 and 100,000 common shares, respectively, exercisable at \$0.115 per share over five year terms. On November 20, 2003, the board of directors granted options to purchase 100,000 common shares at an exercise price of \$0.10 per share. (See Note 14).

(e) **Stock-based compensation**

The Company does not recognize compensation expense for its stock-based compensation issued to employees. Had the Company elected to recognize of its stock-based compensation to employees based on estimated fair market value of stock options granted, the Company's results of operations would have been as follows:

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	Three months ended November 30, 2003	Six months ended November 30, 2003
	\$	\$
Net loss for the period	(91,850)	(182,748)
Unrecorded stock option compensation adjustment	(106,400)	(106,400)
<b>Pro forma net loss for the period</b>	<b>(196,217)</b>	<b>(287,115)</b>
Pro forma fully diluted loss per share	0.003	0.005

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in the periods indicated: dividend yield of 0%, expected stock volatility of 200%, risk free interest rate of 5.2% and an expected option life of 60 months.

**10. RELATED PARTY INFORMATION**

Included in accounts payable and accrued liabilities is \$116,788 due to two directors for administrative services rendered to and expenses paid on behalf of the Company. Cost of services rendered to the Company were \$75,000 during the six month period compared to \$Nil during the six months ended November 30, 2002.

These related party transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. (See also Note 4(a)).

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

The Company did not pay any income taxes or interest during the respective six month periods ended November 30, 2003 and 2002.

Effective August 29, 2003, the Company's wholly-owned subsidiary issued 384,248 Series B First Preferred Shares to acquire 2,064 claims in the Otish Mountains region of Quebec (See Note 3(b)).

During November 2003, the Company issued 580,000 common shares, valued at \$58,000, as compensation for arranging a loan to the Company (See Note 7). During November 2003, the Company issued 6,000,000 common shares to CCC, valued at \$600,000, to acquire the rights to form a joint venture with DBR for diamond exploration in an area near Paulatuk in the Northwest Territories. (See Note 4(a)).

During the six month period ended November 30, 2002, the Company issued 4,585,643 common shares to settle \$468,884 of amounts owing to creditors.

**12. INCOME TAXES**

The Company has not recognized a tax provision or recovery for the periods presented as there is no reasonable expectation that the Company will generate future taxable income. Consequently, a valuation allowance equal the expected amount of tax benefit reduces the tax provision to \$Nil.

During the quarter ended November 30, 2003, the Company incurred \$457,548 of exploration expenditures qualifying as Canadian exploration expenses which qualify for renunciation to

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specified shareholders under the Income Tax Act (Canada). At such time as the Company renounces such exploration expenses to accredited shareholders, the Company will recognize a recovery of unrecognized tax benefits arising from previous write-offs of deferred Canadian exploration expense for accounting purposes.

**13. LOSS PER SHARE**

Loss per share is computed by dividing the loss for the six month period by the weighted average number of common shares outstanding during the six month period. The existence of stock options and warrants may affect the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share, fully diluted loss per share has not been disclosed.

**14. SUBSEQUENT EVENTS**

**Flow-through shares**

Effective December 31, 2003, Diadem placed 6,650,000 flow-through Common Shares at a price of \$0.10 per share for gross proceeds of \$665,000. As part of its compensation, the agent received a broker warrant exercisable for 500,000 Common Shares for a period of one year.

**Private placement**

In addition, Diadem closed, on December 31, 2003, a private placement of 1,309,500 Units at \$0.10 per Unit, for gross proceeds of \$130,950. Each Unit consists of one Common Share and one half of one Common Share Purchase Warrant. Each whole Common Share Purchase Warrant entitles the holder to purchase one additional Common Share up to December 31, 2004 at a price of \$0.13 per share and \$0.17 thereafter up to December 31, 2005.

**Share consolidation**

At the annual general meeting of shareholders on November 27, 2003, the shareholders approved a one-for-five share consolidation. All share figures presented in these consolidated financial statements do not give effect to the share consolidation which has not been implemented through January 28, 2004.

## **SCHEDULE B – SUPPLEMENTARY INFORMATION**

The reader is directed to the financial statements and the attached notes to the financial statements (“Schedule A”) for a full description of supplementary information. Below are items that are not covered in Schedule A.

### **ITEM 5. List of Officers and Directors as at January 29, 2004**

<b><u>Name</u></b>	<b><u>Position</u></b>
Derek Bartlett	Director
Aime Bertrand	Director
Paul A. Carroll	President, CEO and Director
Maurice J. Colson	Director
A. C. A. Howe	Chairman and Director
David J. Layman	Vice-President Finance
William McKnight	Director
Lina Noble	Corporate Secretary
John M. Potwin	Vice-President Government Affairs
George C. Silverman	Director
Thomas Skimming	Vice-Chairman and Director
Rodney N. Thomas	Vice-President Exploration

## **SCHEDULE C – MANAGEMENT DISCUSSION AND ANALYSIS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**NOVEMBER 30, 2003**

#### **Overview**

During the year ended May 31, 2003, Diadem Resources Ltd. ("Diadem" or the "Company") conducted a review of its mineral projects and corporate structure. As a result of this review, the Company recorded an impairment in carrying value of its non-diamond related mineral projects and disposed of all its non-North American assets and non-diamond assets to a related party. The Company will focus on diamond projects in North America.

Management's efforts to achieve the Company's goals are manifested as follows:

- Effective August 29, 2003, Diadem acquired from several companies, an aggregate of 2,064 mining claims in the Otish Mountains region of Quebec.
- During November 2003, Diadem entered into an agreement to form a joint venture with Darnley Bay Resources Ltd. ("DBR") for diamond exploration in an area near Paulatuk in the Northwest Territories. Previous exploration work by DBR resulted in the discovery of kimberlite in 10 pipes of which 6 contain diamonds. A mini-bulk sample resulted in the recovery of 157 micro diamonds.
- The Company has earned a 40% vested interest in and holds an option to acquire up to a 55% interest in 125 unpatented mining claims covering approximately 2,500 acres in the Leek Springs area of Eldorado County, California.

During the second quarter and during December 2003, management was successful in funding the Company's exploration programs and day-to-day operations. Financing of the Company's operations was achieved as follows:

- On September 8, 2003, the Company placed 5,000,000 flow-through common shares at a price of \$0.10 per share to raise gross proceeds of \$500,000.
- On October 10, 2003, the Company sold a non-core asset to raise \$125,000.
- On December 31, 2003, Diadem placed 6,650,000 flow-through Common Shares at a price of \$0.10 per share for gross proceeds of \$665,000.
- On December 31, 2003, Diadem closed a private placement of 1,309,500 Units at \$0.10 per Unit, for gross proceeds of \$130,950.

#### **Results of Operations**

The Company commenced its Otish Mountain exploration program during August 2003 under the direction of Roscoe Postle Associates. A total of 518 till samples were taken and are being processed to determine the presence of kimberlite indicator minerals and diamonds. Through November 30, 2003, the Company had expended \$457,548 on exploring and assessing its Otish Mountain claims.

General corporate costs were \$143,370 during the second quarter 2004 compared to \$28,925 during the comparable period of fiscal 2003. Year-to-date general corporate costs aggregated \$218,158 compared to \$46,459 during the comparable period of fiscal 2003. The increase results from renewed financing and acquisition activity. Salaries are accrued for management with nominal cash draws. The largest cash expenditures were incurred in the area of shareholder relations which were substantially paid by a director of the Company during the first six months.

Interest costs totalled \$31,596 for six months (2003-\$30,681), including \$24,442 (2003-\$24,442) of interest accrued in respect of the debenture. Interest payable in respect of the debenture can be settled in shares of the Company rather than cash.

As consideration for arranging a \$290,000 loan, Diadem issued 580,000 Diadem treasury common shares, valued at \$58,000, to the lender. The proceeds of the loan were posted as a bond to secure the application by Diadem and Darnley Bay Resources Ltd. ("DBR) for issue by the Department of Indian Affairs and Northern Development ("DIAND") of 65 exploration permits for approximately 2.9 million acres in the Northwest Territories.

As a result of its increased activities, the Company recorded a net loss of \$91,850 or \$0.002 per share during the second quarter of fiscal 2004 compared to a net loss of \$58,834 or \$0.001 per share the second quarter of fiscal 2003. For six months the Company recorded a net loss of \$182,748 or \$0.003 per share compared to \$106,073 or \$0.002 per share for the comparable period of fiscal 2003.

### **Capital Resources and Liquidity**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and on the assumption that Diadem will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business as a going concern.

There is uncertainty about the Company's ability to realize the carrying value of its assets and discharge its liabilities as they come due. The ability of the Company to continue as a going concern is dependent upon, among other things, being able to obtain additional financing, collection of outstanding loans, and attaining and maintaining positive operating cash flows.

The Company has reported significant losses for several years and has no mining operations. The Company reported positive operating cash flow as a consequence of deferring payment on trade payables and continued support of management which draws nominal salary. The Company has a significant working capital deficiency of \$1.1 million and an accumulated deficit of \$18.6 million.

The \$500,000 debenture is convertible in whole or in part at the option of the holder into common shares at any time on or before June 2, 2004 at a conversion price of \$0.10 per share. The debenture bears simple interest payable at the annual rate of 9.75%, payable monthly in cash or, at the option of the Company, in common shares valued at the greater of \$0.10 and the 10-trading day weighted average price of the common shares immediately prior to the payment date. The Company is entitled to redeem the debenture on 30 days notice at any time after June 2, 2003, provided that the common shares have traded for at least \$0.50 per share during the 10 trading days ending two days prior to the date of the redemption notice. At November 30, 2003, the debenture holder held 5,000,000 warrants entitling the holder to acquire up to 5,000,000 common shares of the Company at an exercise price of \$0.10 per share on or before June 2, 2004.

Effective September 8, 2003, the Company placed 5,000,000 flow-through common shares at a price of \$0.10 per share to raise gross proceeds of \$500,000. The agent earned a fee of 6% of the proceeds raised through the placement. As further compensation, the agent received a broker warrant exercisable for 350,000 common shares. The net proceeds from the placement will be expended on exploration in the Otish Mountain region of Quebec.

Subsequent to November 30, 2003 and effective December 31, 2003, Diadem placed 6,650,000 flow-through Common Shares at a price of \$0.10 per share for gross proceeds of \$665,000. As part of its compensation, the agent received a broker warrant exercisable for 500,000 Common Shares for a period of one year. In addition, Diadem closed, on December 31, 2003, a private placement of 1,309,500 Units at \$0.10 per Unit, for gross proceeds of \$130,950. Each Unit consists of one Common Share and one half of one Common Share Purchase Warrant. Each whole Common Share Purchase Warrant entitles the holder to purchase one additional Common Share up to December 31, 2004 at a price of \$0.13 and \$0.17 thereafter up to December 31, 2005.

At the annual general meeting of shareholders on November 27, 2003, the shareholders approved a one-for-five share consolidation. All share figures presented in the consolidated financial statements and this management discussion and analysis do not give effect to the approved share consolidation which has not yet been implemented by the Company.

Effective August 27, 2003, the Company formed a wholly-owned subsidiary, Diadem Explorations Inc. ("DEI"), to implement the acquisition of an aggregate of 2,064 mining claims in the Otish Mountains region of Quebec. The acquisitions were effected August 29, 2003 by issuing Series B First Preferred Shares of DEI having a value equal to the staking costs and work carried out on the claims by the vendors. In addition, if a diamond mine is brought into commercial production on any claim, the Company will pay a 2% gross royalty to the vendor that vended in that claim. The Company has the right to acquire the royalty for \$1.5 million, if acquired within 90 days after completion of a bankable feasibility study or for \$2.5 million, if acquired within 12 months after commencement of commercial production.

The Series B First Preferred Shares will be exchangeable, at any time after December 31, 2004 and up to December 31, 2006, into common shares of the Company at the option of either the Company or the vendor. The exchange price would be based upon the weighted average price of the Company's common shares during the three month period ended December 31, 2004

The Company has earned a 40% vested interest in the Leek Springs project and is considering increasing its interest to 55% by funding further exploration. An exploration strategy for the 2004 season is currently being formulated with emphasis on evaluating large scale vent or feeder zones which have been previously identified but remain untested.

Effective October 10, 2003, the Company sold 2,890,000 common shares of Waseco Resources Inc. ("Waseco") and \$225,000 of a \$450,000 demand note payable by Waseco to the Company. Consideration received was \$25,000 on closing and a further \$100,000 payable in four equal monthly instalments, commencing November 28, 2003. The purchaser has placed the Waseco shares in escrow pending payment of the unpaid balance. After completion of this transaction, the Company owns 500,000 common shares of Waseco. At November 30, 2003, accounts receivable includes \$100,000 receivable from the purchaser.

The Company converted an additional \$225,000 note, plus interest accrued on both notes, into (i) a 2% NSR on production derived from the Tewah alluvial gold project in Indonesia to the extent of Waseco's 60% interest therein and (ii) a 2% gross diamond royalty on production derived from the Attawapiskat diamond claims to the extent of Waseco's interest therein. Waseco may re-purchase each NSR at any time up to commencement of commercial production of a mining operation for consideration of \$500,000 or thereafter up to the first anniversary of commercial production for consideration of \$1,000,000. Should Waseco decide to sell its interest in the Attawapiskat diamond claims, or to joint venture exploration or development thereof, it shall first offer it to Diadem.

### **Darnley Bay**

Effective November 26, 2003, the Company entered into an agreement to form a joint venture with DBR for diamond exploration in an area near Paulatuk in the Northwest Territories. The transaction results from an acquisition from Carnarvon Capital Corporation ("CCC") of that company's right to enter into the joint venture. To acquire the rights to form the joint venture, Diadem issued to CCC six million Diadem treasury shares, valued at \$600,000. The Hathaway Corporation provided an independent valuation of the transaction for a fee of \$30,000.

Paul Carroll, President and CEO of Diadem, also is President of CCC and all of its share capital is owned by members of his immediate family. As part of the transfer to Diadem of the Darnley Bay Resources transaction, CCC and Mr. Carroll have agreed that during the period until December 31, 2008 neither CCC nor Mr. Carroll would acquire a controlling interest in any diamond exploration or development project in Canada (or in California) other than through Diadem or with the consent of Diadem. This

agreement would end if there is a change of control of Diadem or if Mr. Carroll is dismissed as President without cause or involuntarily ceases to be a director of Diadem.

Effective November 28, 2003, Diadem, on behalf of itself and Darnley Bay Resources Ltd. ("DBR") posted a bond to secure the application by Diadem and DBR for issue by DIAND of 65 exploration permits ("Permits") for approximately 2.9 million acres in the Northwest Territories south from the Inuvialuit Settlement Region to Great Bear Lake. The bond needs to be outstanding until June 1, 2005 for lands south of the 68<sup>th</sup> parallel and June 1, 2006 for lands north of the 68<sup>th</sup> parallel. The bond is refunded as the assessment work is completed and filed and the refunded amount would be repaid to the lender. Consequently, the bond will be totally released after completion of \$290,000 of assessment work. In addition, under the terms of the extended joint venture with DBR, DBR is responsible for 50% of the costs south of the 68<sup>th</sup> parallel. Therefore, DBR must refund \$98,310 of the bond by March 31, 2004 which amount would be repaid to the lender.

To finance the bond, Diadem borrowed the full \$290,000 amount from a lender. The debt is collateralized by a first security interest in all of the assets of Diadem and by a first specific charge on all interest of Diadem in its joint venture with DBR. The loan bears simple interest at 10%. Interest is payable monthly on the first day of each month (commencing January 1, 2004) while the loan is outstanding in Diadem treasury common shares valued at \$0.10 per share. Diadem may repay the principal amount of the loan in whole or in part at any time. All moneys received from DIAND as a result of the filing of assessment work on the lands to which the Permits relate will be applied first to reduce the principal amount of the loan and interest thereon and Diadem assigned such moneys to the lender as additional collateral for the loan. As consideration for arranging for the provision of the loan, Diadem issued 580,000 Diadem treasury common shares, valued at \$58,000, to the lender.

Under the joint venture, Diadem will expend \$5 million on diamond exploration north of the 68<sup>th</sup> parallel ("project area") during the period to December 31, 2006. When that level of expenditure is completed, Diadem will be entitled to select up to 2.5 million acres of the project area for further exploration, and Diadem will have earned an undivided 50% participating interest in the selected lands, with DBR holding the other 50%. The Inuvialuit Development Corporation has the right to back into the project for a 10% working interest (with dilution to be shared equally by Diadem and DBR) when a decision is made to place a diamond mine into production and a positive feasibility study is completed.

If a decision is made to carry out a feasibility study on the lands selected by Diadem, it will have the right to fund a feasibility study, and if the property is placed into commercial production Diadem's interest will increase to 75% and the DBR's interest will decrease to 25%.

When Diadem has selected the area to which the 50/50 joint venture will apply, the parties will allocate at least \$2.5 million of the \$5 million to the selected lands. Diadem will be entitled to convert the balance of the \$5 million into treasury common shares of DBR at the then market price, subject to regulatory approval, or to convert that amount (in increments of at least \$1 million) into a diamond royalty equal to 1% for each full \$1 million spent and not allocated to the selected lands, with the balance to be taken in DBR shares. DBR will have the right to purchase any such royalty for \$1.5 million for each 1% of the royalty if the purchase is made within 90 days of a bankable feasibility study, or thereafter for \$2.5 million if the purchase is within 90 days of the start of commercial production.

The agreement with DBR is subject to certain conditions including the approval of the Inuvialuit Development Corporation (which has been obtained), the acquisition of certain prospecting permits in the corridor, and the completion of a definitive agreement between the parties.

## **Risks**

The Company's assets are subject to the risk of increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations. Operational risks include finding and developing economic ore reserves. Financial risks include interest and U.S. dollar exchange rates, which are beyond the

control of the Company. The Company is subject to various regulatory risks, many of which also are beyond the control of the Company.

Management has raised equity and debt financing or funded, by way of sale of non-strategic assets, approximately \$1,711,000. In addition, the Company acquired a strategic land position in the Otish Mountains, at a non-cash cost of \$384,248, through the issuance of Series B First Preferred Shares and a known diamond-bearing land position in the Northwest Territories at a non-cash cost of \$600,000 through the issuance of Common Shares. The flow-through funds enable the Company to conduct exploration; however, the Company must find other funding for its general administrative costs. There is no assurance that management can continue to finance its operations. The consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities that would be necessary if the going concern assumption were not appropriate.

## **Management**

The Company has moved to strengthen its management team. During October, Mr. Maurice J. Colson was appointed a Director of the Company. Mr. Colson is a Toronto-based investment banker with considerable experience in the financing of resource companies. Also joining the Company in October was Mr. Rodney N. Thomas, P.Eng., as Vice-President Exploration. Mr. Thomas is a seasoned geologist experienced in senior management, business development and all phases of exploration. During November Mr. John M. Potwin joined Diadem as Vice-President, Government Affairs. Mr. Potwin brings considerable experience with environmental issues and government and community relations in North America, Europe, the Middle East and East Asia.

*Paul A. Carroll*  
President and  
Chief Executive Officer

*David J. Layman*  
Vice-President, Finance

January 28, 2004