

DIADEM RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
AUGUST 31, 2004

DIADEM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Expressed in Canadian Dollars)	August 31 2004	May 31 2004
	\$	\$
ASSETS		
Current		
Cash and term deposits	6,023	124,539
Marketable securities	-	36
Prepaid expenses and sundry receivables	86,051	94,009
	92,074	218,584
Loan receivable (Note 3)	64,086	62,947
Mineral interests (Note 4)	6,654,819	6,601,638
Other investments (Note 5)	20,000	20,000
Equipment (Note 6)	1,633	1,766
Other assets	44,728	44,728
	6,877,340	6,949,663
LIABILITIES		
Current		
Accounts payable and accrued liabilities	947,811	890,789
Convertible debenture (Note 7)	500,000	500,000
	1,447,811	1,390,789
Long-term debt (Note 8)	290,000	290,000
	1,737,811	1,680,789
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	26,897,478	26,890,189
Warrants	87,500	87,500
Contributed surplus	23,200	23,200
Shares to be issued	384,248	384,248
(Deficit)	(22,252,897)	(22,116,263)
	5,139,529	5,268,874
	6,877,340	6,949,663

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 August 31	
	2004	2003
	\$	\$
REVENUE		
Interest income	154	-
	154	-
EXPENSES		
Amortization	132	239
Interest	22,624	15,872
General corporate costs	114,193	74,787
Foreign exchange (gain) loss	(161)	-
	136,788	90,898
NET INCOME (LOSS) for the period	(136,634)	(90,898)
(DEFICIT), beginning of period	(22,116,263)	(18,363,659)
(DEFICIT), end of period	(22,252,897)	(18,454,557)
Net income (loss) per share	(0.002)	(0.002)
Weighted average number of shares	80,127,333	58,376,546

See accompanying notes to the consolidated financial statements

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

(Expressed in Canadian Dollars)	Three months ended August 31	
	2004	2003
	\$	\$
CASH FLOWS (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net (loss) for the period	(136,634)	(90,898)
Adjustment for items not affecting cash:		
Amortization	132	239
	(136,502)	(90,659)
Net changes in non-cash working capital balances:		
Prepaid expenses and sundry receivables	7,958	(76)
Marketable securities	36	
Accounts payable and accrued liabilities	64,311	124,956
Cash flows provided by (used in) operating activities	(64,197)	34,221
INVESTING ACTIVITIES		
Loan receivable	(1,139)	-
Mineral interests	(53,180)	(35,168)
Cash flows (used in) investing activities	(54,319)	(35,168)
Change in cash during the period	(118,516)	(947)
CASH, beginning of period	124,539	3,820
CASH, end of period	6,023	2,873

SUPPLEMENTAL INFORMATION (Note 11)

See accompanying notes to the consolidated financial statements

DIADEM RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2004
(Unaudited)

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. (the "Company" or "Diadem") will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations 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 and maintain positive cash flows from operations. At August 31, 2004, the Company was in default of the debenture referred to in Note 7. Subsequent to August 31, 2004, the Company completed a private placement Common Share financing for gross cash proceeds aggregating \$2,000,000. There is no assurance the Company can continue to finance its operations through the capital markets.

For the three months ended August 31, 2004, the Company recorded a loss of \$136,634 (2003 - \$90,898) and had negative operating cash flow for the three months ended August 31, 2004. At August 31, 2004, the Company has a significant working capital deficiency of \$1,355,737 and an accumulated deficit of \$22,252,757.

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 months ended August 31, 2004 are not necessarily indicative of the results expected for the full year. The Company is in the process of acquiring, exploring and developing its mineral interests in North America and is thus considered to be a development stage company.

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, 2004 and should be read in conjunction with those audited financial statements and notes thereto.

3. LOAN RECEIVABLE

As at August 31, 2004, the loan receivable from Darnley Bay Resources Ltd. ("DBR") is comprised of recoverable interest and finance fees and DBR's share of joint venture costs.

4. MINERAL INTERESTS

	August 31, 2004	May 31, 2004
	\$	\$
<i>Acquisition costs</i>		
Franklin Diamond Project, Northwest Territories	1,163,971	1,163,971
Otish Diamond Project, Quebec	395,203	395,203
	<u>1,559,174</u>	<u>1,559,174</u>
<i>Deferred exploration costs</i>		
Franklin Diamond Project, Northwest Territories	112,745	86,987
Otish Diamond Project, Quebec	661,873	655,332
Leek Springs Diamond Project, California	4,321,027	4,300,145
	<u>5,095,645</u>	<u>5,042,464</u>
	<u>6,654,819</u>	<u>6,601,638</u>

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(a) Franklin Diamond Project, Northwest Territories

Effective November 26, 2003, the Company entered into an agreement to form a joint venture ("Franklin Diamond Project") with DBR for diamond exploration in an area near Paulatuk in the Northwest Territories.

Under the joint venture, Diadem must expend \$5 million on diamond exploration north of the 68th parallel 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 Franklin Diamond 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.

(b) Leek Springs, California

The Company currently has a 43.8% vested interest in and holds an option to acquire up to a 57.9% 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 interest in the mining claims.

To earn the final 14.1% interest in the mining claims, the Company would need to incur approximately US\$2,000,000 on further exploration of the Leek Springs claims by December 31, 2004.

(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 mining claims in the Otish Mountains region of Quebec. The acquisition of the claims was effected by issuing 384,248 Series B First Preference Shares of DEI having a value equal to the staking costs and cost of work carried out on the claims by the vendors.

The Series B First Preference Shares are 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. Since the Company plans to issue its common shares in exchange for the Series B First Preference Shares, they are reflected as shares to be issued.

5. OTHER INVESTMENTS

At August 31, 2004, Diadem owned 4.0 units (May 31, 2004 - 4.0 units) representing 6.4% (May 31, 2004 - 6.4%) of the outstanding units of the Silverstone Prospecting Syndicate which are valued at \$20,000.

6. EQUIPMENT

Equipment, at May 31 of each of the years indicated is comprised as follows:

	August 31, 2004		May 31, 2004	
	Cost	Accumulated amortization	Net	Net

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	\$	\$	\$	\$
Computer and office equipment	5,246	3,613	1,633	1,766
	5,246	3,613	1,633	1,766

7. CONVERTIBLE DEBENTURE

The debenture was 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 debenture matured on June 2, 2004 and the debenture holder has made demand for payment.

Effective October 22, 2004, the debenture plus accrued interest was paid in full.

Included in interest expense is \$13,839 (2004-\$12,288) incurred in respect of the convertible debenture. On October 22, 2004, the Company paid the debentureholder \$61,314, net of tax, to settle interest accrued on the debenture.

8. LONG-TERM DEBT

Long-term debt was incurred to fund a security deposit lodged in support of assessment work to be conducted on the Franklin Diamond Project in the Northwest Territories. The lender has a first security interest in all of the assets of Diadem including its joint venture with DBR. The loan bears simple interest, at 10% per annum, which is payable monthly in Diadem treasury common shares valued at \$0.10 per share. The loan will be repaid out of refunds of the security deposit or from corporate funds and has no maturity date. During the period, 72,896 Common Shares with a fair value of \$7,289 were issued as payment of interest.

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:

	Common shares	
	Number #	Amount \$
Balance, May 31, 2004	80,063,497	26,890,189
Interest paid	72,896	7,289
Balance, August 31, 2004	80,136,393	26,897,478

(c) **Private placement**

During October 2004, the Company completed a private placement of 33,333,333 Units at \$0.06 per Unit, for gross proceeds of \$2,000,000. Each Unit consists of one Common Share and one Common Share Purchase Warrant. Each whole Common Share Purchase Warrant entitles the holder to purchase one additional Common Share up to October 22, 2006 at a price of \$0.10. In addition, the agent received 300,000 Common Shares for arranging the private placement.

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(d) Warrants

Broker warrants to acquire 2,500,000 Common Shares, at a price of \$0.10 per share, for a period of two years from October 22, 2004 were issued to the agent as compensation for effecting the private placement discussed in Note 9(c).

10. RELATED PARTY INFORMATION

Included in accounts payable and accrued liabilities is \$186,292 (May 31, 2004-\$137,667) due to three directors for administrative services rendered to and expenses paid on behalf of the Company. Cost of services rendered to the Company were \$34,000 during the three month period (2004-\$37,500).

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.

11. SUPPLEMENTARY CASH FLOW INFORMATION

The Company did not pay any income taxes during the respective periods of 2004 and 2003. During the quarter the Company issued 72,896 treasury Common Shares to settle interest aggregating \$7,289.