DIADEM RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOVEMBER 30, 2004

DIADEM RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Expressed in Canadian Dollars)	November 30 2004	May 31 2004
	$	**$**
ASSETS		
Current		
Cash and term deposits	557,661	124,539
Marketable securities	-	36
Prepaid expenses and sundry receivables	2,809	94,009
	560,470	218,584
Loan receivable (Note 3)	66,352	62,947
Mineral interests (Note 4)	6,745,495	6,601,638
Other investments (Note 5)	20,000	20,000
Equipment (Note 6)	3,575	1,766
Other assets	44,728	44,728
	7,440,620	6,949,663
LIABILITIES		
Current		
Accounts payable and accrued liabilities	473,830	890,789
Convertible debenture (Note 7)	-	500,000
	473,830	1,390,789
Long-term debt (Note 8)	-	290,000
	473,830	1,680,789
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	29,057,812	26,890,189
Warrants	62,500	87,500
Contributed surplus	280,700	23,200
Shares to be issued	384,248	384,248
(Deficit)	(22,818,470)	(22,116,263)
	6,966,790	5,268,874
	7,440,620	6,949,663

See accompanying notes to the consolidated financial statements

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

	Three months ended November 30		Six months ended November 30	
(Expressed in Canadian Dollars)	2004	2003	2004	2003
	$	$	$	$
REVENUE				
Gain (loss) on sale of investment	(128)	125,000	(128)	125,000
Interest income	2,467	151	2,621	151
	2,339	125,151	2,493	125,151
EXPENSES				
Amortization	133	239	265	477
Interest	220	15,724	22,844	31,596
Financial consulting services	162,500	58,000	162,500	58,000
General corporate costs	137,891	143,370	252,084	218,158
Stock option benefit	257,500	-	257,500	-
Foreign exchange (gain) loss	(20)	(332)	(181)	(332)
	558,224	217,001	695,012	307,899
NET (LOSS) for the period	(555,885)	(91,850)	(692,519)	(182,748)
Costs associated with issuance of capital stock	(9,688)	(30,000)	(9,688)	(30,000)
(DEFICIT), beginning of period	(22,252,897)	(18,454,557)	(22,116,263)	(18,363,659)
(DEFICIT), end of period	(22,818,470)	(18,576,407)	(22,818,470)	(18,576,407)
Net income (loss) per share	(0.006)	(0.002)	(0.008)	(0.003)
Weighted average number of shares	94,156,307	63,208,854	87,083,746	60,779,497

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)	2004	2003	2004	2003
	$	$	$	$
CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net (loss) for the period	(555,885)	(91,850)	(692,519)	(182,748)
Adjustment for items not affecting cash:				
Amortization	133	239	265	477
Stock option benefit	257,500	-	257,500	-
Warrants issued for financial consulting services	62,500	-	62,500	-
Gain on sale of investment	-	(125,000)	-	(125,000)
Interest paid through issuance of shares	12,123		12,123	
Issuance of shares to settle costs associated with debt financing	-	58,000	-	58,000
	(223,629)	(158,611)	(360,131)	(249,271)
Net changes in non-cash working capital balances:				
Prepaid expenses and sundry receivables	83,242	308	91,200	231
Marketable securities	-	-	36	-
Accounts payable and accrued liabilities	(481,271)	184,549	(416,960)	299,135
Cash flows provided by (used in) operating activities	(621,658)	26,246	(685,855)	50,095
INVESTING ACTIVITIES				
Loan receivable	(2,265)	(290,000)	(3,404)	(290,000)
Equipment	(2,074)	-	(2,074)	-
Proceeds from sale of investment	-	25,000	-	25,000
Mineral interests	(90,677)	(498,642)	(143,857)	(523,438)
Cash flows (used in) investing activities	(95,016)	(763,642)	(149,335)	(788,438)
FINANCING ACTIVITIES				
Common shares issued for cash	2,068,000	500,000	2,068,000	500,000
Increase (decrease) in long-term debt	(290,000)	290,000	(290,000)	290,000
(Decrease) in convertible debenture	(500,000)	-	(500,000)	-
Costs associated with issuance of capital stock	(9,688)	-	(9,688)	-
	1,268,312	790,000	1,268,312	790,000
Change in cash during the period	551,638	52,604	433,122	51,657
CASH, beginning of period	6,023	2,873	124,539	3,820
CASH, end of period	557,661	55,477	557,661	55,477

SUPPLEMENTAL INFORMATION (Note 11)

See accompanying notes to the consolidated financial statements

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. During October and November 2004, the Company issued 34,133,331 common shares for gross cash proceeds aggregating $2,068,000. Subsequent to November 30, 2004, the Company issued 7,554,670 flow-through units for proceeds of $1,133,200 consisting of one flow-through common share and one-half of one flow-through purchase warrant. Each whole warrant entitles the holder to purchase one flow-through common share at a price of $0.20 per share for a period of nine months following closing of the private placement. There is no assurance the Company can continue to finance its operations through the capital markets.

For the six months ended November 30, 2004, the Company recorded a loss of $692,519 (2004 - $182,748) and had negative operating cash flow for the six months ended November 30, 2004. At November 30, 2004, the Company has working capital of $86,640 and an accumulated deficit of $22,818,470.

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, 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 November 30, 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

	November 30, 2004 $	May 31, 2004 $
Acquisition costs		
Franklin Diamond Project, Northwest Territories	1,163,971	1,163,971
Attawapiskat Diamond Project, Ontario	15,000	-
Otish Diamond Project, Quebec	395,203	395,203
	1,574,174	1,559,174
Deferred exploration costs		
Franklin Diamond Project, Northwest Territories	117,477	86,987
Otish Diamond Project, Quebec	732,671	655,332
Leek Springs Diamond Project, California	4,321,173	4,300,145
	5,171,321	5,042,464
	6,745,495	6,601,638

(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 is to 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) Attawapiskat Diamond Project

Subsequent to November 30, 2004, the Company paid $15,000 to enter into an option agreement to acquire a 51% interest in the entire Attawapiskat diamond property of Vault Minerals Inc. The property consists of 219 contiguous claims (3,403 claim units) covering over 53,000 hectares located in the James Bay Lowlands area of Northern Ontario.

(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 Preferred Shares are exchangeable, at any time after December 31, 2004 and up to December 31, 2006, into 3,256,338 Common Shares of the Company at the option of either the Company or the vendor based on a weighted average trading price of $0.118 per share during the three month period ended December 31, 2004. During January 2005, two vendors exchanged 23,952 Series B First Preference Shares for 202,985 common shares of the Company.

(d) 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 needed to incur approximately US$2,000,000 on further exploration of the Leek Springs claims by December 31, 2004. The Company is in discussions with SPS to restructure ownership of the project.

5. OTHER INVESTMENTS

At November 30, 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 each of the dates indicated is comprised as follows:

	November 30, 2004			May 31, 2004
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Computer and office equipment	7,321	3,746	3,575	1,766
	7,321	3,613	3,575	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 bore 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 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 debenture holder $61,314 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 had a first security interest in all of the assets of Diadem including its joint venture with DBR. The loan bore simple interest, at 10% per annum, which was payable monthly in Diadem treasury common shares valued at $0.10 per share. The loan which had no maturity date was repaid on October 22, 2004. During the six month period ended November 30, 2004, 121,229 Common Shares with a fair value of $12,123 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	121,229	12,123
Exercise of warrants	500,000	102,500
Expiry of warrants	-	35,000
Private placement	33,333,331	2,000,000
Financial fee	300,000	18,000
Balance, November 30, 2004	114,318,057	29,057,812

(c) Private placement

Effective October 22, 2004, the Company completed a private placement of 33,333,331 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.

(d) Financial advisory services

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 as partial compensation for financial advisory services. In addition, 300,000 common shares were issued as partial compensation for financial advisory services.

(e) Flow-through Financing

During December 2004, the Company placed 7,554,670 Units at a price of \$0.15 per Unit for gross proceeds of \$1,133,200. Each Unit consisted of one flow-through common share and one-half of one flow-through common share purchase warrant. Each warrant entitles the holder to purchase one additional flow-through common share at a price of \$0.20 per share for a period of nine months after the closing of the private placement. A total of \$46,396 in cash commissions was paid and 309,307 non flow-through broker warrants were issued, exercisable for a period of nine months from the date of closing.

(f) Stock-based compensation

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: expected dividend yield of 0%, expected stock volatility of 100%, risk free interest rate of 5.0% and an expected option life of 60 months.

The fair value of warrants issued as partial compensation for financial advisory services is estimated on the date of the issue using the Black-Scholes option-pricing model with the following weighted average assumptions used for the issue: expected dividend yield of 0%, expected stock volatility of 100%, risk free interest rate of 5.0% and an expected warrant life of 2 years.

10. RELATED PARTY INFORMATION

Included in accounts payable and accrued liabilities is \$55,744 (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 \$118,333 during the relevant periods of service during the six month period (2004-\$75,000). A company controlled by one director was paid \$20,000 for financial advisory services during the period. 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 2005 and 2004. During the six month period ended November 30, 2004, the Company issued 121,229 common shares to settle \$12,123 of interest cost.

During the six month period ended November 30, 2004, the Company recorded non-cash compensation aggregating \$257,500 as a consequence of the issue of stock options to the directors and officers of the Company.

The Company charged \$62,500 to operations as a consequence of valuing the issuance of 2,500,000 warrants as described in Note 9(d).