DIADEM RESOURCES LTD.

(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

AUGUST 31, 2005

DIADEM RESOURCES LTD.
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Expressed in Canadian Dollars)	August 31 2005	May 31 2005
	$	**$**
ASSETS		
Current		
Cash and term deposits	821,264	1,455,535
Subscription receivable	-	10,000
Prepaid expenses and sundry receivables	43,978	44,351
	865,242	1,509,886
Mineral interests (Note 3)	2,794,250	2,345,930
Equipment (Note 4)	9,030	9,762
Other assets (Note 5)	238,534	238,534
	3,907,056	4,104,112
LIABILITIES		
Current		
Accounts payable and accrued liabilities	321,540	422,647
	321,540	422,647
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	31,073,972	30,844,248
Warrants	1,010,087	1,010,087
Contributed surplus	576,222	502,782
Shares to be issued	54,475	284,199
Deficit	(29,129,240)	(28,959,851)
	3,585,516	3,681,465
	3,907,056	4,104,112

Commitments (Note 9)

See accompanying notes to the consolidated financial statements

DIADEM RESOURCES LTD.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)

	Three months ended August 31	
(Expressed in Canadian Dollars)	2005	2004
	$	$
REVENUE		
Interest income	3,861	154
Gain on sale of investment	10,625	-
Foreign exchange gain	-	161
	14,486	315
EXPENSES		
Amortization	732	132
Interest	2,260	22,624
General corporate costs	180,883	114,193
	183,875	136,949
NET LOSS for the period	(169,389)	(136,634)
DEFICIT, beginning of period	(28,959,851)	(22,444,663)
DEFICIT, end of period	(29,129,240)	(22,581,297)
Net loss per share-basic and diluted	(0.001)	(0.002)
Weighted average number of common shares	155,209,065	80,127,333

See accompanying notes to the consolidated financial statements

DIADEM RESOURCES LTD.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Expressed in Canadian Dollars)	Three months ended August 31 2005	2004
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(169,389)	(136,634)
Adjustment for items not affecting cash:		
Amortization	732	132
Stock-based compensation	73,440	-
Gain on sale of investment	(10,625)	-
	(105,842)	(136,502)
Net changes in non-cash working capital balances:		
Prepaid expenses and sundry receivables	373	7,958
Marketable securities	-	36
Subscription receivable	10,000	-
Accounts payable and accrued liabilities	(101,107)	64,311
Cash flows from operating activities	(196,576)	(64,197)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan receivable	-	(1,139)
Proceeds from sale of investment	10,625	-
Mineral interests	(448,320)	(53,180)
Cash flows from investing activities	(437,695)	(54,319)
Change in cash during the period	(634,271)	(118,516)
CASH, beginning of period	1,455,535	124,539
CASH, end of period	821,264	6,023

SUPPLEMENTAL INFORMATION (Note 8)

See accompanying notes to the consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Diadem Resources Ltd. (the "Company" or “Diadem”) 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. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

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. There is no assurance the Company can continue to finance its operations through the capital markets.

For the three months ended August 31, 2005, the Company recorded a loss of $169,389 (2005 - $136,634) and had negative operating cash flow for the three months ended August 31, 2005. At August 31, 2005, the Company had working capital of $543,702 and an accumulated deficit of $29.1 million.

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, 2005 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, 2005 and should be read in conjunction with those audited financial statements and notes thereto.

3. MINERAL INTERESTS

	August 31, 2005 $	May 31, 2005 $
Acquisition costs		
Franklin Project, Northwest Territories	1,163,971	1,190,764
Attawapiskat Project, Ontario	25,000	15,000
	1,188,971	1,205,764
Deferred exploration costs		
Franklin Diamond Project, Northwest Territories	978,101	513,068
Attawapiskat Project, Ontario	327,178	327,098
Otish Mountains Project, Quebec	300,000	300,000
	1,605,279	1,140,166
	2,794,250	2,345,930

(a) Franklin Project, Northwest Territories

Effective November 26, 2003, the Company entered into an agreement to form a joint venture (“Franklin Project”) 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. Paul Carroll, President and CEO of Diadem at the time of the transaction, 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 transaction with DBR, CCC and Mr. Carroll have agreed that during the period ending December 31, 2008 neither CCC nor Mr. Carroll would acquire a controlling interest in any diamond

exploration or development project in Canada or California other than through Diadem or with the consent of Diadem.
Under the joint venture, Diadem was to expend $5 million on diamond exploration north of the 68th parallel during the period to December 31, 2006. When this earning level of expenditure is completed, Diadem will be entitled to select up to 2.5 million acres of the project area for further exploration (the "Selected Lands"), 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 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.

The parties will allocate a portion of the earn-in amount to the Selected Lands. Diadem will be entitled to convert the balance of the earn-in amount not allocated to the Selected Lands 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.

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 DBR's interest will decrease to 25%.

Effective March 15, 2005, Diadem's earn-in requirement on the lands north of the 68th parallel was reduced to approximately $3,100,000 and the earn-in period was extended to December 31, 2007. DBR has relinquished its participating interest in the joint venture lands south of the 68th parallel and transferred to Diadem 100% ownership in the permits and claims south of the 68th parallel.

The joint venture entered into a letter agreement with the Inuvialuit Regional Corporation ("IRC") under which the Company and DBR will enter into a Cooperation and Benefits Agreement with the Inuvialuit. This agreement covers an area in the Inuvialuit Settlement Region around Paulatuk of about 57,000 square kilometres (excluding the area around Paulatuk in which the Inuvialuit own the mineral rights and excluding the Tuktut Nogait National Park). The agreement is for 5 years from January 1, 2004 with provisions for renewal and termination consistent with the joint venture's mining rights in the area. The joint venture will be granted access to the Inuvialuit lands to conduct exploration, development and extraction operations for rough diamonds.

The joint venture will be required to obtain all necessary Inuvialuit permits and approvals, and will pay the fees and charges under the Inuvialuit Rules with a minimum amount payable each year of $50,000. The joint venture was to incur at least $2 million of work by June 30, 2005. On March 1, 2005 the Inuvialuit extended the date from June 30, 2005 to September 30, 2005. Subsequently, inclement weather and other operational issues impeded survey progress with the effect that expenditures by September 30, 2005 were approximately $1.85 million. The IRC has indicated that the main issue is the execution of the field program, which is on-going, and as such the IRC Board looks favourably upon the joint venture efforts although expenditures have fallen marginally short of the $2 million expenditure threshold. The Inuvialuit will receive a 2% diamond royalty on mining rights exploited by the joint venture. (The Inuvialuit can hold certain claims in the area in which there is a 15-year deferral of Crown royalties. In such cases the Inuvialuit will receive an additional 4% royalty while the deferral applies.) If the joint venture completes a positive feasibility, the Inuvialuit have the right to acquire up to a 10% participating interest by paying the corresponding percentage of the cost of the feasibility study. Approximately $1,000,000 has been spent on lands north of the 68th parallel as at May 31, 2005.

(b) Attawapiskat Project, Ontario

During December 2004, the Company paid $15,000 to enter into an option agreement to acquire a 51% interest in the entire Attawapiskat 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.

In order to maintain the option agreement in good standing Diadem undertook to make the following payments and expenditures;

(a) on or prior to June 1, 2005 a payment of $10,000 (paid);
(b) on or prior to December 1, 2005 a payment of $25,000;
(c) on or prior to December 1, 2006 a payment of $50,000; and
(d) expenditures on or in connection with the property and/or other lands within the area of interest, at Diadem's option, of at least $500,000 on or before December 1, 2005 of which $300,000 shall be committed and expended on or before April 1, 2005 and at least a further $500,000 shall be committed and expended on or before December 1, 2006. In connection with the foregoing expenditures, Diadem is entitled to a management fee of 5% on any individual contract for expenditures of $50,000 or more entered into by it and a fee of 10% on all other direct exploration expenditures.

Through August 31, 2005, Diadem had incurred $352,000 of qualified expenditures on this property, excluding the management fee.

4. EQUIPMENT

Equipment at each of the dates indicated is comprised as follows:

	August 31, 2005			May 31, 2005
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Computer and office equipment	14,450	5,420	9,030	9,762
	14,450	5,420	9,030	9,762

5. OTHER ASSETS

Other assets at each of the dates indicated are comprised as follows:

	August 31, 2005	May 31, 2005
	$	$
Investment in Belitung Limited	21	21
Exploration deposits	238,513	238,513
	238,534	238,534

6. 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, 2005	152,800,602	30,844,248
Exchange of First Preferred Series B Shares (Note 6(d))	1,946,810	229,724
Balance, August 31, 2005	154,747,412	31,073,972

(c) Warrants

A summary of the Company's warrant activity during the period June 1, 2005 through August 31, 2005 is as follows:

	Warrants	**Weighted average exercise price**
	#	$
Outstanding, beginning of period	41,838,728	0.11
Outstanding, end of period	41,838,728	0.11

A summary of warrants outstanding at August 31, 2005 is as follows:

Expiry date	**Warrants**	**Exercise price**
	#	$
September 22, 2005	3,709,680	0.20
September 30, 2005	376,967	0.20
December 31, 2005	654,750	0.17
May 31, 2006	1,264,000	0.05
October 22, 2006	35,833,331	0.10
	41,838,728	

(d) First Preferred Series B Shares

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 First Preferred Series B Shares of DEI having a value equal to the staking costs and cost of work carried out on the claims by the vendors.

The First Preferred Series B 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 at a price of $0.118 per common share, being the weighted average trading price of the common shares during the three-month period ended December 31, 2004. Since the Company plans to issue its common shares in exchange for the First Preferred Series B Shares, they are reflected as shares to be issued.

During the three months ended August 31, 2005, three vendors exchanged 229,724 First Preferred Series B Shares for 1,946,810 common shares of the Company. As at August 31, 2005, 54,475 First Preferred Series B Shares were outstanding which will be converted into 461,453 common shares of Diadem.

(e) Stock Option Plan

Effective July 19, 2005, the board of directors granted options to purchase 5,400,000 common shares at an exercise price of $0.10 per share, of which options to acquire 1,740,000 common shares are subject to shareholder approval.

The following is a summary of stock options currently outstanding:

Expiry Date	Exercise Price $	Options #
December 31, 2005	0.100	1,300,000
February 20, 2008	0.100	750,000
February 21, 2008	0.100	250,000
May 28, 2008	0.100	3,400,000
October 8, 2008	0.115	350,000
October 8, 3008	0.100	500,000
November 20, 2008	0.100	100,000
October 18, 2009	0.105	1,750,000
November 1, 2009	0.100	750,000
July 19, 2010	0.100	5,400,000
		14,550,000

The weighted average fair value of options granted during the period was $0.035. The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 100%, risk-free interest rate of 4.5% and an expected option life of 60 months. The statement of operations was charged $73,440 for options vesting during the period.

7. RELATED PARTY INFORMATION

Included in accounts payable and accrued liabilities is $98,275 (May 31, 2005-$163,571) 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 $44,000 during the three month period (2005-$34,000).

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.

8. SUPPLEMENTARY CASH FLOW INFORMATION

The Company did not pay any income taxes during the respective periods ended August 31, 2005 and 2004. During the quarter ended August 31, 2004, the Company issued 72,896 treasury Common Shares to settle interest aggregating $7,289.

	2005 $	2004 $
Income taxes paid	-	-
Interest paid	-	-
Common shares issued in settlement of interest	-	7,289
Value of Series B First Preference Shares exchanged for common shares of the Company	229,724	-

9. COMMITMENTS

As at August 31, 2005, the Company is committed to incur prior to December 31, 2005, on a best efforts basis, approximately $72,000 in qualifying Canadian exploration expenditures pursuant to a private placement for which flow-through proceeds had been received and renounced to the subscribers with an effective date of December 31, 2004.