DIADEM RESOURCES LTD.

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

NOVEMBER 30, 2005

Overview

Diadem is a Canadian exploration and development company primarily focused on its Franklin Diamond Project in the Lena West Area, Northwest Territories and its newly-acquired gold projects in Mali, West Africa. During November and December 2005, Diadem entered into agreements which give the Company the right to earn in on several gold properties in the Republic of Mali in West Africa. The Company continues to focus on advancing its Franklin Project, which at present is the Company's principal exploration asset. The Company is also actively seeking other opportunities to complement its exploration and development property portfolio. During the two most recent fiscal years management was successful in funding the Company's diamond exploration programs and day-to-day operations with over $6.5 million of fresh capital.

Results of Operations

General corporate costs were $244,828 during the six months (2005-$252,084) and $64,095 (2005-$137,891) during the second quarter. Excluding valuation of employee stock options, management fees were $130,002 compared to $193,334 during the respective six-month fiscal periods of 2005 and 2006. The reduction resulted from realignment of management duties. Management fees, excluding the valuation of employee stock options, approximate 38% (2005-77%) of general corporate costs. A portion of management fees are accrued for management who receive nominal cash draws while the Company remains in the development stage. At November 30, 2005, unsettled management fees aggregated $108,167. Costs associated with the shareholder relations and regulatory compliance function approximate 27% (2005-28%) of corporate costs.

Interest and debt financing costs totalled $4,303 (2005-$22,844) during the six-month fiscal period. Interest expense during fiscal 2005 includes interest on loans which were settled during the second quarter of fiscal 2005. The Company continues to accrue interest on certain claims against the Company. The Company will make adjustments for the interest accrued in the period which the claims are settled.

Subsequent to November 30, 2005, the Company elected not to proceed further with exploration of the Attawapiskat property and allowed the option to lapse. Consequently, the Company recorded a $352,134 provision for impairment in carrying value of its Attawapiskat property.

As a result of its activities, the Company recorded a net loss of $514,707 or $0.003 per share during the second quarter of fiscal 2006 compared to a net loss of $555,885 or $0.006 per share during the second quarter of fiscal 2005. The Company recorded a net loss of $684,906 or $0.004 per share during the first half of fiscal 2006 compared to a net loss of $692,519 or $0.008 per share during the first half of fiscal 2005.

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 and maintain positive cash flows from operations. At November 30, 2005, the Company had $512,805 in cash. On May 31, 2005, the Company had raised $1,504,000 by way of flow-through financing. The Company must incur an equivalent amount on qualifying Canadian exploration expenditures before the end of calendar 2006. Through December 31, 2005, the Company had fulfilled its obligations in respect of the $1,133,200 flow-through financing of December 2004.

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

The Company has reported significant losses since its formation in 1965 and has no mining operations and is considered a development stage company. For the six months ended November 30, 2005, the Company recorded a loss of $684,096 (2005 - $692,519) and had negative operating cash flow for the same periods. At November 30, 2005, the Company had working capital of $165,400, down from $1,087,239 at May 31, 2005, and an accumulated deficit of $29.6 million.

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 six months ended November 30, 2005, three vendors exchanged 229,724 First Preferred Series B Shares for 1,946,810 common shares of the Company. As at November 30, 2005, 54,475 First Preferred Series B Shares were outstanding and which will be converted into 461,453 common shares of Diadem.

Consolidation of Shares Outstanding

The Company currently has 154,747,412 issued and outstanding common shares. Consequently, the Company has asked its shareholders to approve, at a special meeting of shareholders, to be held on January 27, 2006, a resolution to consolidate the existing common shares on a one-for-sixteen basis. After the proposed consolidation, there will be 9,671,713 common shares issued and outstanding. Although the significant number of shares outstanding has provided liquidity in trading of the Company's shares, there are difficulties in effecting private placements while the Company's shares trade below $0.10.

The Company has announced that, following approval of the shareholders to effect consolidation of shares issued, it intends to complete a non-brokered private placement of up to 1,000,000 units at $0.80 per unit to raise up to $800,000 of equity financing. Each unit will consist of one post-consolidation share at $0.80 per share and one-half warrant. A full warrant will entitle the holder to acquire one common share at $1.00.

Exploration Programs

Management's efforts to achieve the Company's goals are demonstrated by the Company's acquisition of interests in areas having or being close to known kimberlite, diamond-bearing structures. The Company is active in the Franklin Bay area of the Northwest Territories. Airborne geophysical surveys have been completed on the Parry Peninsula, which constitutes roughly one third of the Franklin Bay project area, The Company has identified 21 potential drill targets on the peninsula and has completed till sampling on and down ice from these targets in order to determine targets worthy of follow-up by core drilling in 2006.

Franklin Project

In May, 2004 twenty-two airborne targets, including one known kimberlite and three previously surveyed targets that were not GPS referenced, were surveyed by ground magnetometer by JVX Ltd. using the JVX ROVER sled-mounted magnetometer system towed behind a snowmobile. Horizontal control was provided by differential GPS and positioning accurate within 2 metres. A total of 19 grids were established and a total of 487.5 kilometres of line surveyed with readings obtained every 2.5 metres. Of the targets evaluated a total of at least 8 high priority drill targets have been identified including the three targets that had been previously magnetically surveyed but not GPS located. Three of the targets exhibit geophysical characteristics consistent with known kimberlites on the property. Of particular interest are the five remaining targets, of which three exist as circular magnetic lows and two as circular magnetic highs. The existence of kimberlite targets of varying magnetic signatures is consistent with known kimberlite fields elsewhere in the Canadian Shield and whereas drilling to date has focused on the most obvious targets every effort will be directed at establishing an inventory of kimberlite targets prior to the next phase of drilling. Accordingly, Fugro Airborne Surveys were engaged in late December 2004, to complete a planned 50,000 line kilometres airborne magnetic gradiometer survey, at a cost of approximately $889,175, over selected portions of the project area including infill surveying of the Parry Peninsula kimberlite cluster to improve resolution and definition of the known kimberlite field as well as to explore those areas where previous till sampling had yielded anomalous geochemistry, suggestive of the presence of kimberlites, but without adequate aeromagnetic coverage. In this regard, infill flying of the Parry Peninsula kimberlite cluster has provided survey coverage at a 100 metre flight line spacing as compared to 200 metres and in the other areas flight line coverage will be at 160 metre or 200 metre versus existing coverage at 800 metres or more. Aeromagnetic surveying of the property commenced on March 27, 2005. Subsequent to August 31, 2005 preliminary results from the survey of the Parry Peninsula Kimberlite Cluster are very encouraging and a total of 21 potential drill targets, including two previously drilled targets, were followed up by surface till sampling during August and September 2005. Results are pending. Management anticipates funding further exploration of the Franklin Project primarily through the issuance of flow-through shares.

Attawapiskat Project

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. During the six months ended November 30, 2005, the Company paid a further $10,000 to maintain the option agreement and, through November 30, 2005, had incurred $352,134 of qualified expenditures on this property, excluding the management fee.

Subsequent to November 30, 2005, the Company elected not to proceed further with exploration of the Attawapiskat property and allowed the option to lapse and wrote-down the carrying value of deferred exploration and acquisition costs associated with the project.

Tinkeleni Project, Mali

Effective November 23, 2005, Diadem entered into a partnership agreement with La Société African Minerals Exploration SARL ("Amex") on the Amex's Tinkeleni gold property in Mali, West Africa. The partnership agreement required Diadem to pay Amex FCFA 4,000,000 for the right to conduct due diligence for a 150-day period following which the parties would enter into a formal option agreement. The payment was settled through the payment of CAD 8,636.

The option agreement contemplates a four-year period during which the following payments would be made:

Upon entering into the option agreement	USD 25,000
On the first anniversary	USD 55,000
On the second anniversary	USD 60,000
On the third anniversary	USD 70,000
On or before the fourth anniversary	USD 160,000
	USD 370,000

Upon completion of the option payments, Diadem would own a 100% interest in the Tinkeleni property, subject to a 2% net smelter royalty ("NSR") in favour of Amex. The NSR may be acquired by Diadem, at any time, for USD 2,000,000.

Diokeba, Dalakan and Sinzeni Projects, Mali

Effective December 1, 2005, Diadem signed letter agreements with North Atlantic Resources Ltd. ("NAC") to enter into an option and joint venture agreement whereby Diadem would explore NAC's 100%-owned Diokeba, Dalakan and Sinzeni gold properties in Mali, West Africa.

In order to earn a 60% interest in each of the properties Diadem must incur the following expenditures, expressed in Canadian dollars:

	Diokeba property $	Dalakan property $	Sinzeni property $
Exploration and development expenditures required			
First year	250,000	250,000	125,000
Second year	250,000	250,000	125,000
Third year	500,000	500,000	250,000
Fifth year	1,000,000	1,000,000	500,000

To maintain each of the options, Diadem will issue 125,000 pre-consolidation common shares immediately. On each of the next four anniversary dates, Diadem must issue 50,000 shares in respect of each of the Diokeba and Dalakan properties, 400,000 common shares in aggregate. In respect of the Sinzeni property, Diadem must issue 25,000 common shares on each of the next four anniversary dates, 100,000 common shares in aggregate.

Upon earning its 60% interest in each of the properties, Diadem can elect to be operator of the respective property.

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 ability of the Company to develop its properties and the future profitability of the Company are directly related to the market price of diamonds. The Company is subject to various regulatory risks, many of which also are beyond the control of the Company.

Rodney N. Thomas
President and
Chief Executive Officer

David J. Layman
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January 27, 2006