

DIADEM RESOURCES LTD.

(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOVEMBER 30, 2005

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

(Expressed in Canadian Dollars)	November 30 2005	May 31 2005
	\$	\$
ASSETS		
Current		
Cash and term deposits	512,805	1,455,535
Subscription receivable	-	10,000
Prepaid expenses and sundry receivables	30,022	44,351
	542,827	1,509,886
Mineral interests (Note 3)	2,684,830	2,345,930
Equipment (Note 4)	8,298	9,762
Other assets (Note 5)	238,534	238,534
	3,474,489	4,104,112
LIABILITIES		
Current		
Accounts payable and accrued liabilities	377,427	422,647
	377,427	422,647
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	31,073,972	30,844,248
Warrants	1,010,087	1,010,087
Contributed surplus	602,475	502,782
Shares to be issued	54,475	284,199
Deficit	(29,643,947)	(28,959,851)
	3,097,062	3,681,465
	3,474,489	4,104,112

DIADEM RESOURCES LTD.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited)

(Expressed in Canadian Dollars)	Three months ended November 30		Six months ended November 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
REVENUE				
Gain (loss) on sale of investment	-	(128)	10,475	(128)
Interest income	3,937	2,467	7,798	2,621
	3,937	2,339	18,273	2,493
EXPENSES				
Amortization	732	133	1,464	265
Interest	2,043	220	4,303	22,844
Financial consulting services	-	162,500	-	162,500
General corporate costs	64,095	137,891	244,828	252,084
Stock-based compensation	99,693	257,500	99,693	257,500
Foreign exchange (gain) loss	(53)	(20)	(53)	(181)
Write-down of mineral interests	352,134	-	352,134	-
	518,644	558,224	702,369	695,012
NET (LOSS) for the period	(514,707)	(555,885)	(684,096)	(692,519)
Costs associated with issuance of capital stock	-	(9,688)	-	(9,688)
DEFICIT, beginning of period	(29,129,240)	(22,252,897)	(28,959,851)	(22,116,263)
DEFICIT, end of period	(29,643,947)	(22,818,470)	(29,643,947)	(22,818,470)
Net loss per share	(0.003)	(0.006)	(0.004)	(0.008)
Weighted average number of shares	155,208,065	94,156,307	155,208,065	87,083,746

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 November 30		Six months ended November 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net (loss) for the period	(514,707)	(555,885)	(684,096)	(692,519)
Adjustment for items not affecting cash:				
Amortization	732	133	1,464	265
Write-down of mineral interests	352,134		352,134	
Stock-based compensation	26,253	257,500	99,693	257,500
Warrants issued for financial consulting services	-	62,500	-	62,500
Gain on sale of investment	-	-	(10,475)	-
Interest paid through issuance of shares	-	12,123	-	12,123
	(135,588)	(223,629)	(241,280)	(360,131)
Net changes in non-cash working capital balances:				
Prepaid expenses and sundry receivables	13,956	83,242	14,329	91,200
Marketable securities	-	-	-	36
Accounts payable and accrued liabilities	55,887	(481,271)	(45,220)	(416,960)
Cash flows provided by (used in) operating activities	(65,745)	(621,658)	(272,171)	(685,855)
INVESTING ACTIVITIES				
Loan receivable	-	(2,265)	-	(3,404)
Equipment	-	(2,074)	-	(2,074)
Proceeds from sale of investment	-	-	10,475	-
Mineral interests	(242,714)	(90,677)	(691,034)	(143,857)
Cash flows (used in) investing activities	(242,714)	(95,016)	(680,559)	(149,335)
FINANCING ACTIVITIES				
Common shares issued for cash	-	2,068,000	10,000	2,068,000
Increase (decrease) in long-term debt	-	(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	10,000	1,268,312
Change in cash during the period	(308,459)	551,638	(942,730)	433,122
CASH, beginning of period	821,264	6,023	1,455,535	124,539
CASH, end of period	512,805	557,661	512,805	557,661

SUPPLEMENTAL INFORMATION (Note 8)

See accompanying notes to the consolidated financial statements

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

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 Canada and Mali 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 six months ended November 30, 2005, the Company recorded a loss of \$684,096 (2005 - \$692,519) and had negative operating cash flow. At November 30, 2005, the Company had working capital of \$165,401 and an accumulated deficit of \$29.6 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 and six months ended November 30, 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

	November 30, 2005 \$	May 31, 2005 \$
<i>Acquisition costs</i>		
Franklin Project, Northwest Territories	1,190,764	1,190,764
Attawapiskat Project, Ontario	-	15,000
Tinkeleni, Mali	8,636	-
Diokeba, Mali	-	-
	1,199,400	1,205,764
<i>Deferred exploration costs</i>		
Franklin Diamond Project, Northwest Territories	1,184,360	513,068
Attawapiskat Project, Ontario	-	327,098
Otish Mountains Project, Quebec	300,000	300,000
Tinkeleni, Mali	405	-
Diokeba, Mali	665	-
	1,485,430	1,140,166
<i>Total mineral interests</i>	2,684,830	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,

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

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 Tuktu 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, consequently, expenditures by November 30, 2005 were approximately \$1.7 million..

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.

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

(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. 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 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.

(c) 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:

(i)	Upon entering into the option agreement	USD 25,000
(ii)	On the first anniversary	USD 55,000
(iii)	On the second anniversary	USD 60,000
(iv)	On the third anniversary	USD 70,000
(v)	On or before the fourth anniversary	USD <u>160,000</u>
		USD <u>370,000</u>

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.

(d) 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 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

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

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.

4. EQUIPMENT

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

	November 30, 2005		May 31, 2005	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Computer and office equipment	14,450	6,152	8,298	9,762
	14,450	6,152	8,298	9,762

5. OTHER ASSETS

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

	November 30, 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, November 30, 2005	154,747,412	31,073,972

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

(c) Warrants

A summary of the Company's warrant activity during the period June 1, 2005 through November 30, 2005 is as follows:

	Warrants	Weighted average exercise price
	#	\$
Outstanding, beginning of period	41,838,728	0.11
Expired	(4,086,647)	(0.20)
Outstanding, end of period	37,752,081	0.10

A summary of warrants outstanding at November 30, 2005 is as follows:

Expiry date	Warrants	Exercise price
	#	\$
May 31, 2006	1,264,000	0.05
October 22, 2006	35,833,331	0.10
	37,097,331	

Subsequent to November 30, 2005, 654,750 warrants, having an exercise price of \$0.17 per share, expired unexercised.

(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 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 which will be converted into 461,453 common shares of Diadem.

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

(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.

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, 2008	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.

Subsequent to November 30, 2005, 1,550,000 options to acquire shares expired unexercised.

(f) Share consolidation

As at November 30, 2005, Diadem had 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.

(g) Private placement

On January 17, 2006, Diadem announced that it proposes to effect 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 common share at \$0.80 and one-half warrant at \$1.00 per common share expiring December 31, 2006. The private placement is expected to close not later than February 10, 2006.

7. RELATED PARTY INFORMATION

Included in accounts payable and accrued liabilities is \$120,885 (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 \$88,903 during the six month period (2005-\$118,333) and \$44,451 during the three month period (2005-\$84,333).

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.

DIADEM RESOURCES LTD.
(A Development Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(Unaudited)

8. SUPPLEMENTARY CASH FLOW INFORMATION

The Company did not pay any income taxes during the respective periods ended November 30, 2005 and 2004. During the six months ended November 30, 2004, the Company issued 121,229 treasury Common Shares to settle interest aggregating \$12,123.

	2005	2004
	\$	\$
Income taxes paid	-	-
Interest paid	-	-
Common shares issued in settlement of interest	-	12,123
Value of Series B First Preference Shares exchanged for common shares of the Company	229,724	-

9. COMMITMENTS

As at November 30, 2005, the Company had fulfilled its commitment to incur 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.