

DIADEM RESOURCES LTD.

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

FEBRUARY 28, 2006

Overview

Diadem is a Canadian mineral exploration and development company primarily focused on its Franklin Diamond Project in the Lena West Area, Northwest Territories, its recently acquired gold projects in Mali, West Africa and a near-development stage gold project in Quebec. Its objective is to evolve itself into a gold and/or base metal producer as early as practicable with the objective of developing cash flowing assets within 18 to 24 months, if not sooner, while maintaining appropriate exploration exposure to diamonds as well as to gold and base metals. Material property transactions by the Company during and following the fiscal quarter ended February 28, 2006:

- During April 2006, Diadem entered into a binding option agreement to acquire a 50% vested interest in the Duquesne West gold project having an inferred gold resource of 277,000 ounces of gold
- During November and December 2005, Diadem entered into agreements which give the Company the right to earn in on several gold exploration properties in Mali in West Africa.

The Company continues to focus on advancing its Franklin Project, which at present is the Company's principal exploration asset. 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. The Company is also actively seeking other opportunities to complement its exploration and development property portfolio.

Results of Operations

Selected Quarterly Financial Information

	Three months ended February 28		Nine months ended February 28	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue	66,092	23,022	84,365	25,515
Expenses	168,857	191,835	519,092	886,847
Write-down of mineral interests	-	-	352,134	-
Income tax (recovery)	543,245	286,664	543,245	286,664
Net income (loss)	440,480	117,851	(243,616)	(574,668)
Net income (loss) per share-basic and diluted	0.045	0.025	(0.025)	(0.140)

During the quarter the Company sold its remaining shares of Waseco Resources for proceeds of \$73,300 compared to shares sold during the third quarter of fiscal 2005 for proceeds aggregating \$23,022.

General corporate costs were \$373,817 during the nine months (2005-\$347,018) and \$128,989 (2005-\$94,933) during the third quarter. Management fees were \$195,003 and \$239,338 during the respective nine-month fiscal periods of 2006 and 2005 and \$86,668 and \$76,004 during the respective third quarters of fiscal 2006 and 2005. The overall reduction resulted from realignment of management duties. Management fees approximate 52% (2005-69%) 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 February 28, 2006, unsettled management fees aggregated \$123,418. Costs associated with the shareholder relations and regulatory compliance function approximate 28% (2005-28%) of corporate costs. Corporate costs, during the comparative 2005 quarter, were affected by the settlement of old debts for less than face value.

Interest and debt financing costs totalled \$6,379 (2005-\$41,652) during the respective nine-month fiscal periods. Interest cost during the quarter was \$2,076 compared to \$18,808 during the comparable quarter of fiscal 2005.

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.

Cost of financial advisory services incurred during fiscal 2005 includes a non-cash charge of \$62,500 resulting from the valuation of warrants issued to acquire 2,500,000 common shares of Diadem, the issuance of 300,000 pre-consolidation common shares valued at \$0.06 per share and cash compensation of \$160,052. Approximately \$80,000 was paid to the financial consultant during 2005 while a director of the Company.

Stock-based compensation expense continues to accrue for previously reported stock option grants as the options vest. Effective March 22, 2006, Mr. Rodney Thomas resigned his position as President and CEO of Diadem. Consequently, certain of his options will not vest and stock-based compensation will be reduced.

During December, 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, before recovery of future income taxes, of \$102,765 during the third quarter of fiscal 2006 compared to a net loss, before recovery of future income taxes, of \$168,613 during the third quarter of fiscal 2005. For nine months, the Company recorded a net loss, before recognition of recovery of future income taxes, of \$786,861 compared to a net loss, before recognition of recovery of future income taxes, of \$861,332 during the comparable period of fiscal 2005. During February 2006 and effective December 31, 2005, Diadem renounced \$1,504,000 of Canadian exploration expense to shareholders participating in its May 2005 flow-through financing. Consequently, Diadem recorded a previously unrecorded tax benefit in the statement of operations.

As a result of its activities, Diadem recorded net income of \$440,480 or \$0.045 per share during the third quarter of fiscal 2006 compared to net income of \$117,851 or \$0.025 per share during the third quarter of fiscal 2005. Diadem recorded a net loss of \$243,616 or \$0.025 per share during the nine months of fiscal 2006 compared to a net loss of \$574,668 or \$0.140 per share during the nine months 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 February 28, 2006 the Company had \$385,414 in cash and current liabilities of \$385,778. On May 31, 2005, the Company 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.

The Company's objective is to evolve itself into a gold and/or base metal producer as early as practicable with the objective of developing cash flowing assets within 18 to 24 months, if not sooner, while maintaining appropriate exploration exposure to diamonds as well as to gold and base metals. However, there is no assurance the Company can continue to finance its operations and exploration programs through the capital markets.

Diadem has entered into a binding option agreement to acquire a 50% vested interest and the right to increase the vested interest to 57.5% in the Duquesne West gold project ("Project") north of Rouyn-Noranda, Quebec. The option agreement is with Jack Stoch Geoconsultant Services Inc. ("Vendor") and Globex Mining Enterprises Inc. ("Globex").

Under the agreement, Diadem can earn a 50% fully vested interest in the Project by spending \$6.0 million over three years on exploration and development, of which the first \$1.0 million is to be spent in the period to June 30, 2007. Diadem will make initial cash payments to the Vendor of \$250,000 and issue to the vendor 1,250,000 Diadem treasury common shares (subject to normal restrictions and regulatory requirements). To maintain the option, Diadem would make cumulative cash payments of an additional \$350,000 to the Vendor over two further years, plus carry out an additional \$5.0

million of exploration and development of the Project. Upon Diadem acquiring its 50% interest in the Project, Diadem would grant to the Vendor a 2.25% gross metal royalty based on Diadem's 50% interest in the Project out of which the Vendor will pay an existing 1% NSR royalty on the Project. Once the 50/50 joint venture is formed, further exploration and development costs will be shared proportionately by Diadem and Globex.

Upon Diadem earning its 50% fully vested interest it will have a one-time option to complete, at its cost, a positive bankable feasibility study required to put the Project into commercial production. Upon completion of the positive bankable feasibility study, or upon Diadem putting the Project into commercial production, including arranging the financing therefore, it will have the right to acquire from Globex an additional 7.5% fully vested interest in the Project upon payment to Globex of \$250,000 cash and the issue to Globex of 5% of the then issued and outstanding (undiluted) common shares of Diadem, subject to normal restrictions and regulatory requirements.

The Company has reported significant losses since its formation in 1965 and has no mining operations and is considered a development stage company. The Company continues to report negative operating cash flow and has no operations that can generate positive cash flow. At February 28, 2006 the Company had working capital of \$12,422, down from \$1,087,239 at May 31, 2005.

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 \$1.888 per post-consolidation 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.

Three vendors exchanged 229,724 First Preferred Series B Shares for 121,675 post-consolidation common shares of the Company. As at February 28, 2006, 54,475 First Preferred Series B Shares were outstanding and which will be converted into 28,850 post-consolidated common shares of Diadem.

Consolidation of Issued Common Shares

At a special meeting of shareholders held on January 27, 2006, the shareholders approved that the outstanding common shares of the Company be consolidated on a one-for-sixteen basis (1:16). Subsequently, the TSX Venture Exchange granted its approval for the consolidation of common shares and the Articles of the Company were amended under the Business Corporations Act (Ontario). At April 28, 2006, there are 9,671,581 post consolidated shares issued and outstanding.

Exploration Programs

Management's efforts to achieve the Company's goals in diamond exploration 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, Northwest Territories

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 using a 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, in late December 2004 an airborne magnetic gradiometer survey was contracted which commenced in March, 2005 operating out of Paulatuk. By October 2005 the contractor had completed a total of 52,836 line km of airborne survey over the Parry Peninsula Kimberlite Cluster referred to as the northern claim block as well as over all of the central claim block and a portion of the southern claim block. Survey work was suspended in late October 2005 because of deteriorating weather and light conditions. Preliminary results from the survey of the Parry Peninsula Kimberlite Cluster were 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.

A total of 223 till samples were collected and subsequently processed and resultant heavy mineral concentrates were then optically examined for the presence of visual kimberlite indicator minerals. The visual indicator minerals from each of the heavy mineral concentrates in the vicinity of the known pipes are highly anomalous whereas anomalous results, meaning one or more visual indicator minerals obtained from one or more samples, were obtained in the vicinity of all the prospective kimberlite targets as previously determined by the ground and airborne magnetic surveys completed in 2004 and 2005. Individual indicator minerals are currently being analyzed by electron microprobe to determine their mineral chemistry and kimberlite provenance.

Attawapiskat Project, Ontario

During December 2004, the Company entered into an option agreement to acquire a 51% interest in the entire Attawapiskat property of Vault Minerals Inc. During the period ended November 30, 2005, the Company incurred \$352,134 of qualified expenditures on this property, plus \$25,000 of property payments. In December 2005, the Company elected not to proceed further with exploration of this property, 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 an agreement with La Société African Minerals Exploration SARL ("Amex") on Amex's Tinkeleni gold property in Mali, West Africa. The agreement required Diadem to pay Amex FCFA 4,000,000 (approximately C\$8,636) for the right to conduct due diligence for a 150-day period (which expired April 22, 2006) following which if the agreement was to proceed the parties would enter into a formal option agreement.

If the option agreement is entered into, it contemplates a four-year period during which the following payments (expressed in United States dollars) would be made:

Upon entering into the option agreement	25,000
On the first anniversary	55,000
On the second anniversary	60,000
On the third anniversary	70,000
On or before the fourth anniversary	<u>160,000</u>
	<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.

Diokeba, Dalakan and Sinzeni Projects, Mali

Effective December 1, 2005, Diadem signed letter agreements with North Atlantic Resources Ltd. ("NAC") to enter into separate option and joint venture agreements whereby Diadem would fund exploration of 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 issued on March 27, 2006, 7,812 common shares. On each of the next four anniversary dates, Diadem must issue 3,125 common shares in respect of each of the Diokeba and Dalakan properties, 25,000 common shares in aggregate. In respect of the Sinzeni property, Diadem must issue 1,564 common shares on each of the next four anniversary dates, 6,250 common shares in aggregate.

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

Duquesne West Gold Project, Quebec

Subsequent to February 28, 2006, Diadem entered into a binding option agreement to acquire a 50% vested interest and the right to increase the vested interest to 57.5% in the Duquesne West gold project ("Project") north of Rouyn-Noranda, Quebec. Further details can be found in Note 11 to the financial statements.

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.

Paul A. Carroll
Chairman and
Chief Executive Officer

David J. Layman
Vice-President, Finance

May 1, 2006