DIADEM RESOURCES LTD.

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

FEBRUARY 28, 2007

Overview

Management of Diadem Resources Ltd. ("Diadem" or the "Company") is focused on acquiring near-production mining opportunities in North America, especially those related to gold, in addition to its gold and diamond exploration and development activities. The Company is engaged in diamond exploration in the Franklin Bay area of the Northwest Territories and gold exploration in the Rouyn-Noranda region of Quebec. On the exploration property on the Parry Peninsula, which constitutes most of the Franklin Bay project area, the Company has identified 23 potential drill targets. The Company also has acquired a right to acquire a 50% interest in the Duquesne West Project which has a gold resource, with the right to increase to a 57.5% interest.

Selected Quarterly Information

	Revenues $	**Expenses** $	**Net income/ (loss)** $	**Basic and fully diluted net income/ (loss) per share** $
2005–Q3 – February 28, 2005	23,022	191,835	117,851	0.02
2005–Q4 – May 31, 2005	(19,341)	5,415,502	(5,434,843)	(0.83)
2006–Q1 – August 31, 2005	14,486	183,875	(169,389)	(0.02)
2006–Q2 – November 30, 2005	3,937	518,644	(514,707)	(0.05)
2006–Q3 – February 28, 2006	66,092	168,857	440,480	0.05
2006–Q4 – May 31, 2006	2,981	497,716	(494,735)	(0.05)
2007–Q1 – August 31, 2006	1,726	142,562	(140,835)	(0.01)
2007–Q2 – November 30, 2006	3,850	118,946	(115,096)	(0.01)
2005–Q3 – February 28, 2007	9,927	216,285	813,328	0.04

Note: 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). Common Shares outstanding and basic and fully diluted income (loss) per share, in prior periods, have been adjusted to reflect the share consolidation.

Results of Operations

Three months-

General corporate costs were $146,006 (2006-$128,989) during the quarter. The increase results principally from an increase in cost of services rendered by management resulting from recognition of previously unaccrued compensation to one officer of the Company. During 2006, one officer withdrew from the Company. Amortization of stock-based compensation fell on the elimination of vesting options associated with the resignation of the Company's former President.

Interest costs totalled $14,985 (2006-$2,076) during the quarter. Interest expense increased on recognition of Part II.6 interest arising from renunciation of qualified Canadian exploration expenditures for the calendar year ended December 31, 2006 which are incurred subsequent to February 28, 2007.

During the period, the Company's subsidiary, Diadem Explorations Inc. ("DEI"), reversed previously recognized Quebec tax credits aggregating $52,814 as the expenditures were incurred in a company not registered to receive the credit.

As a result of its activities, the Company recorded a net loss, before recovery of future income taxes, of $206,358 during the quarter compared to a net loss, before recovery of future income taxes, of $102,765 during the corresponding quarter of fiscal 2006. During February 2007 and effective December 31, 2006, Diadem renounced

$2,823,052 (2006-$1,504,000) of Canadian exploration expense to shareholders participating in its flow-through financings. Consequently, Diadem recorded previously unrecorded tax benefits in the statements of operations.

After recovery of future income taxes, Diadem recorded net income of $813,328 or $0.04 per share during the third quarter of fiscal 2007 compared to net income of $440,480 or $0.05 per share during the third quarter of fiscal 2006.

Nine months-
General corporate costs were $299,449 (2006-$373,817) during the first months months. The decrease results principally from a reduction in cost of services rendered by management following the resignation of the President in March 2006 and a $35,000 reduction in shareholder and investor relations costs. Amortization of stock-based compensation fell on the elimination of vested options associated with the resignation of the Company's former President. Management fees approximate 58% (2006-34%) of general corporate costs. Costs associated with the shareholder relations and regulatory compliance function approximate 19% (2005-30%) of general corporate costs.

Interest costs totalled $61,040 (2006-$6,379) during the nine months. Interest expense increased on recognition of Part II.6 interest arising from renunciation of qualified Canadian exploration expenditures for the calendar year and which are incurred after February 28 in the subsequent calendar year.

Financial services and advisory services, totalling $105,000, were rendered by two directors. A further $1,200 was paid to a consulting geologist in connection with the flow-through financings.

After recovery of future income taxes, the Company recorded net income of $557,396 or $0.03 per share during the period compared to a net loss of $243,616 or $0.03 per share during 2006.

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 reach positive cash flows from operations. At February 28, 2007, the Company had $787,866 in cash and commitments to expend, on a best efforts basis, approximately $2,688,000 on qualifying Canadian exploration expense.

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

The Company has reported significant losses for several years and has no mining operations and is considered a development stage company. For the nine months ended February 28, 2007 and 2006, the Company incurred negative operating cash flow. At February 28, 2007, the Company had working capital of $426,754.

During May 2005, the Company placed 1,880,000 common shares at a price of $0.80 per share for gross proceeds of $1,504,000. The funds were used to incur Canadian exploration expense on its Franklin, Attawapiskat and Otish Mountain diamond projects, which expense was renounced to investors. The Company incurred an equivalent amount on qualifying Canadian exploration expenditures before the end of calendar 2006.

During July 2006, the Company placed 1,813,454 flow-through common shares at a price of $0.42 per share for gross proceeds of $761,650.

During November 2006, the Company placed flow-through common shares and Units at a price of $0.34 per share and $0.34 per Unit for aggregate gross proceeds of $1,621,002. Each Unit consisted of one flow-through common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share for a period of one year with an exercise price of $0.45 per share and thereafter at an exercise price of $0.60 per share for the period ending 24 months from the date of issuance. The gross proceeds were prorated to capital stock and warrants based on the relative fair value of each component, as follows: capital stock - $1,387,866; warrants - $233,136. A total of $81,050 in cash commissions was paid and 381,412 non-flow-through broker warrants were issued, exercisable for a period of one year with an exercise price of $0.45 per share and thereafter at an exercise price of $0.60 per share for the period ending 24 months from the date of issuance. The broker warrants were valued at $25,173. The fair values of the warrants and broker warrants were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: expected dividend yield of 0%, expected stock volatility of 50%, risk-free interest rate of 4.18% and an expected warrant life of 2 years.

During December, 2006, the Company placed 1,295,295 Units at a price of $0.34 per Unit for gross proceeds of $440,400. Each Unit consisted of one flow-through common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share for a period of one year with an exercise price of $0.45 per share and thereafter at an exercise price of $0.60 per share for the period ending 24 months from the date of issuance.

Effective August 27, 2003, the Company formed a wholly-owned subsidiary, 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.

During August 2003, DEI issued Series B First Preferred Shares having a value of $384,248 to the vendors of the Otish Mountain claims. This was equal to the historical staking costs and work carried out by the vendors on those claims. The Series B First Preferred Shares, displayed on the balance sheet under the caption Shares to be issued, were exchangeable, at any time after December 31, 2004 and up to December 31, 2006, into 203,518 Common Shares of the Company at the option of either the Company or the vendor based on a weighted average trading price of $1.888 per share during the three month period ended December 31, 2004. During 2005, three vendors exchanged 100,049 Series B First Preference Shares for 52,992 common shares of the Company. During fiscal 2006, three vendors exchanged 229,724 Series B First Preference Shares for 121,676 common shares of the Company. During November 2006, the Company exercised its right to effect the exchange of the balance of the Series B First Preference Shares into common shares of the Company.

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).

On October 22, 2006, 2,239,583 warrants to acquire common shares of the Company expired unexercised. At April 27, 2007, there are 24,153,708 post-consolidated shares (fully diluted: 24,544,333) issued and outstanding.

Exploration Programs

	Balance May 31, 2006	Additions	Writedowns	Balance February 28, 2007
	$	$	$	$
Acquisition costs				
Franklin Project,				
Northwest Territories	1,190,764	-	-	1,190,764
Duquesne West, Quebec	25,000	563,750	-	588,750
	1,215,764	563,750	-	1,779,514
Deferred exploration costs				
Franklin Project,				
Northwest Territories	1,528,751	124,228	-	1,652,979
Duquesne West, Quebec	44,366	1,158,534	-	1,202,900
	1,573,117	1,282,762	-	2,855,879
	2,788,881	1,846,512	-	4,635,393

Franklin Project

Effective November 26, 2003, the Company entered into an agreement to form a joint venture ("Franklin Diamond Project") with Darnley Bay Resources Ltd. ("DBR") for diamond exploration in an area near Paulatuk in the Northwest Territories. Diadem's earn-in requirement on the lands north of the 68th parallel is approximately $3,100,000 and the earn-in period extends to December 31, 2007. DBR 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. Expenditures through February 28, 2007 were in excess of $2,250,000

Diadem and DBR entered into a Cooperation Agreement with the Inuvialuit Regional Corporation ("IRC") whereby the IRC agreed to cooperate to develop the diamond potential of certain Inuvialuit and Crown lands. The agreement is for a term of five years commencing January 1, 2004 with provisions for renewal and termination. Diadem and DBR are required to obtain all necessary Inuvialuit permits and approvals and will pay fees and charges under the Inuvialuit Rules with a minimum amount payable each year of $50,000. Diadem and DBR were to incur at least $2,000,000 of work by June 30, 2005. On March 1, 2005 the IRC extended the date from June 30, 2005 to September 30, 2005. Expenditures through February 28, 2007 were in excess of the budgeted field program. Management believes that the main concern of the IRC is the completion of the field program, which, at the time of writing, is ongoing, and as such the IRC will look favourably upon the project. Through February 28, 2007, the Company has spent approximately $2,844,000 on assembly and exploration of the Franklin Project.

During the nine months ended February 28, 2007 exploration work was focused on completion of work carried out mostly in calendar 2005 and analyses thereof and culminated in the filing in August 2006 of a comprehensive assessment report with Natural Resources Canada. During the third quarter, no exploration costs were incurred on the Franklin property other than nominal holding costs.

During 2004 and 2005, the Company made various exploration deposits, totalling $238,513, relating to the Franklin Project which were recoverable upon an equivalent amount being spent on qualified exploration expenditures. The Company did not spend a sufficient amount on qualified exploration to hold all its claims and permits and, consequently, applied the exploration deposits as amounts in lieu of work on the properties retained.

In recognition of the large amounts of money involved in diamond exploration in Canada's far north, Diadem is endeavouring to identify a senior industry partner to drill test known diamondiferous kimberlite pipes and highly prospective geophysical targets that have magnetic signatures similar to known kimberlite pipes and around which kimberlite indicator minerals have been found.

Duquesne Project
On April 18, 2006, Diadem entered into an 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"). At the time the agreement was entered into Diadem made an initial cash payment to the Vendor of $25,000.

A definitive option agreement was entered into, dated July 17, 2006, under which Diadem can earn a 50% fully vested interest in the Project by spending $6,000,000 over three years on exploration and development, of which $1,000,000 is to be spent by June 30, 2007, an additional $2,000,000 is to be spent by June 30, 2008 and an additional $3,000,000 is to be spent by June 30, 2009. On September 5, 2006, Diadem made an additional cash payment to the Vendor of $225,000, and issued 1,250,000 Diadem common shares to the Vendor having an assigned value of $338,750. As at February 28, 2007, Diadem had expended $1,158,534 on exploration of the project and, therefore has more than satisfied its current exploration requirements. To maintain the option, Diadem also will be required to make additional cash payments of $150,000 to the Vendor by June 30, 2007 and $200,000 by June 30, 2008. 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. 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 in the Project, 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 a 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 common shares of Diadem.

During September 2006, Diadem commenced a diamond drill program on the property. All costs incurred in respect of this diamond drill program, which at February 28, 2007 aggregate $1,202,900, qualify as Canadian exploration expense.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this management's discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. The Company has five officers, including the Chief Executive Officer, the Chief Financial Officer and the Corporate Secretary and no employees. The involvement of these three officers in all aspects of the design and operation of disclosure controls and procedures was effective as at and for the year ended May 31, 2006 and the period ended February 28, 2007 and provides reasonable assurance that all material information relating to the Company is disclosed.

Financial Instruments

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities effective for financial years commencing on or after October 1, 2007. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for sundry receivables and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

Related Party Information

Included in accounts payable and accrued liabilities is $23,180 (May 31, 2006-$120,167) due to directors for administrative, financial and geological services rendered to and expenses paid on behalf of the Company. Cost of services rendered to the Company by the directors was $132,000 (2006-$142,881) during the nine month periods ended February 28. 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.

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 precious metals and diamonds. The Company is subject to various regulatory risks, many of which also are beyond the control of the Company.

During July and November 2006, the Company raised $761,650 and $2,061,402, respectively, by way of flow-through financings. The Company is committed to incur, prior to December 31, 2007 and on a best efforts basis, $2,823,052 in qualifying Canadian exploration expenditures which were renounced to the subscribers with an effective date of December 31, 2006.

As at February 28, 2007, the commitment had been reduced to approximately $2,688,000. At February 28, 2007, the Company had $787,866 in cash available to meet the commitments.

Paul A. Carroll
Chairman and
Chief Executive Officer

David J. Layman
Vice-President, Finance

April 27, 2007