

DIADEM RESOURCES LTD.

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

AUGUST 31, 2007

Overview

Diadem Resources Ltd. is focused on acquiring near-production mining opportunities in North America, especially those related to diamonds and gold. Currently, its principal activity is diamond exploration in the Franklin Bay area within the Inuvialuit Settlement Region of the Northwest Territories. On that project Diadem now has identified 28 specific drill targets on the Parry Peninsula, which currently constitutes most of the Franklin Bay project area. A ground magnetic survey and diamond drilling is planned to evaluate these targets and mobilization of the required equipment to the project site has begun.

Selected Quarterly Information

	Revenues	Expenses	Net income/ (loss)	Basic and fully diluted net income/ (loss) per share
	\$	\$	\$	\$
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)
2007-Q3 – February 28, 2007	9,927	216,285	813,328	0.04
2007-Q4 – May 31, 2007	50,481	2,140,605	(2,090,125)	(0.11)
2008-Q1 – August 31, 2007	4,406	154,122	(149,716)	(0.01)

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

General corporate costs were \$66,544 (2007-\$59,816) during the quarter, excluding the effect of stock-based compensation. The increase results principally from a \$20,000 increase in cost of services rendered by one officer of the Company. The increase in management services costs were partially offset by a reduction in other costs. 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 \$76,706 (2007-\$2,874) during the quarter. Interest costs increased as a consequence of the imposition of Part XII.6 tax on larger unexpended Canadian exploration expenditures for flow-through purposes subsequent to February 28 of the year following the year of renouncement.

During May 2007, the Company elected not to proceed further with the Duquesne West project, allowed the option to lapse and wrote-off the carrying value of the project. Certain invoices and adjustments have been received subsequent to year end. These costs, aggregating \$8,425, were accumulated in accordance with Diadem's accounting policies and then charged to operations as exploration.

As a result of its activities, the Company recorded a net loss of \$149,716 or \$0.01 per share during the quarter compared to a net loss of \$140,835 or \$0.01 per share during the corresponding quarter of fiscal 2007.

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. As at August 31, 2007, the Company is committed to incur prior to December 31, 2007, on a best efforts basis, approximately \$2,415,000 in qualifying Canadian exploration expenditures ("CEE") pursuant to private placements for which flow-through proceeds had been received and renounced to the subscribers with an effective date of December 31, 2006. As at October 25, 2007, this commitment was reduced to approximately \$2,191,000.

As a result of environmental permitting delays, Diadem may not incur sufficient CEE during calendar 2007. In order to address the impact on subscribers to the Company's flow-through financings, the Company proposes to seek to enter into amended agreements with the affected subscribers and to approach Canada Revenue Agency and the relevant Quebec tax authorities to confirm the consequence of any amendment to the original subscription agreements.

Diadem may be subject to certain additional taxes as a result of the potential shortfall in CEE expenditures incurred during 2007. Diadem may seek relief to reduce these additional taxes given the specific circumstances of the delays encountered. No accrual has been made as the magnitude of any potential shortfall is not determinable.

Other taxes payable include \$230,790 in Part XII.6 tax on flow-through CEE incurred subsequent to the year of renunciation to investors. Should the Company not incur the amount renounced to investors prior to December 31, 2007, the Company may be assessed further penalties.

There is no assurance the Company can continue to finance its operations through the capital markets. Further, the Company needs to fund its administrative activities which constitute non-flow-through expenditures and is actively seeking funding of these expenditures.

The Company has reported significant losses for several years and has no mining operations and is, therefore, considered an exploration stage company. For the years ended May 31, 2007 and 2006, the Company incurred negative operating cash flow. At August 31, 2007, the Company had working capital deficiency of \$121,543.

Consolidation of Issued Common Shares

At October 25, 2007, there were 18,944,647 common shares (fully diluted: 24,544,333) issued and outstanding.

Exploration Programs

	Balance May 31, 2007 \$	Additions \$	Write-downs \$	Balance August 31, 2007 \$
Acquisition costs				
Franklin Project, Northwest Territories	1,142,696	-	-	1,142,696
	1,142,696	-	-	1,142,696
Deferred exploration costs				
Franklin Project, Northwest Territories	1,617,877	183,804	-	1,801,681
Duquesne West, Quebec	-	8,425	(8,425)	-
	1,617,877	192,229	(8,425)	1,801,681
	2,760,573	192,229	(8,425)	2,944,377

Franklin Project

Effective November 26, 2003, the Company entered into an agreement to form a joint venture ("Franklin Project") with Darnley Bay Resources Limited ("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 375,000 Diadem common shares, then valued at \$600,000. Paul Carroll, Chairman and CEO of Diadem, also is President of CCC and all of its share capital is owned by 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 in California) other than through Diadem or with the consent of Diadem.

Under the agreement, Diadem was to expend \$5,000,000 on diamond exploration within the Inuvialuit settlement region north of the 68th parallel by December 31, 2006. When this earn-in level of expenditure is completed, Diadem will have earned an undivided 50% participating interest in the selected lands, with DBR holding the other 50%. If a decision is made to carry out a feasibility study on the lands, 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 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 Company 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 5 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 the fees and charges under the Inuvialuit Rules with a minimum amount payable each year of \$50,000.

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 a positive feasibility is completed, 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.

During October 2007, the Company proposed to commence an exploration program which will include a ground gradiometer magnetic survey, permitting and environmental impact studies. This is planned to be a prelude to a 3,000- to 5,000-metre diamond drilling program scheduled to commence in the spring of 2008. A drilling contractor for the spring 2008 drill program has already been secured. The estimated cost of the total 2007-2008 program is approximately \$3.0 million. In connection with the permitting process the Company caused a report on its proposed programs to be prepared for the Inuvialuit Environmental Impact Screening Committee.

Applications for all required permits and approvals from the Inuvialuit Land Administration, Environmental Impact Screening Committee, North West Territories Water Board and the North West Territories Workers' Compensation Board are being processed and communications with affected organizations and individuals native to the project area are on-going.

In order to minimize mobilization costs, Diadem transported bulk supplies and consumables, during July 2007, to Paulatuk. These supplies are now in place awaiting commencement of the exploration program.

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 four 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, 2007 and the period ended August 31, 2007 and provides reasonable assurance that all material information relating to the Company is disclosed.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and reported amounts revenue and expenditures during the reporting period.

The interim unaudited consolidated financial statements 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, 2007, except as noted below.

Section 3855-Financial Instruments-Recognition and Measurement

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", available-for-sale financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

Section 1530-Comprehensive Income

Section 1530 of the CICA Handbook establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other non-owner sources. The Company has no accumulated other comprehensive income.

Section 3865-Hedging

Section 3865 of the CICA Handbook specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and for the three month period ended August 31, 2007, the Company had no hedges in place.

The application of these new standards has no impact on the Company's financial statements as at and for the three month period ended August 31, 2007.

Related Party Information

Included in accounts receivable are amounts due from two corporations over which two directors have direction. Included in accounts payable and accrued liabilities is \$10,000 (May 31, 2007-\$12,040) due, directly and indirectly, to three 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 three directors was \$35,000 (2006-\$88,000) during the three month periods ended August 31. In addition and during the three months ended August 31, 2006, \$75,000 was paid to two directors in respect of financial advisory services. 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. As at October 25, 2007, the Company is committed to incur, prior to December 31, 2007 and on a best efforts basis approximately \$2,191,000 in qualifying Canadian exploration expenditures which were renounced to the subscribers with an effective date of December 31, 2006.

At August 31, 2007, the Company had \$354,184 in cash available to meet the commitments. There is no assurance the Company can continue to finance its operations through the capital markets.

Paul A. Carroll
Chairman and
Chief Executive Officer

David J. Layman
Vice-President, Finance

October 25, 2007