

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

FEBRUARY 29, 2008

The following is Management's Discussion and Analysis ("MDA") of the financial condition and results of operations to enable a reader to assess material changes in financial condition and results of operations for the three and nine month periods ended February 29, 2008. This MDA has been prepared as at April 29, 2008, unless otherwise indicated. This MDA is intended to supplement and complement the financial statements and notes thereto for the period ended February 29, 2008. All amounts are expressed in Canadian dollars unless otherwise indicated.

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 has just been completed and diamond drilling is planned to evaluate these and other targets.

Cautionary Note Regarding Forward-looking Information

This discussion contains or refers to forward-looking information such as statements regarding targets and/or estimates regarding future exploration costs and capital spending, timing of such expenditures and future economic, market and other conditions and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, the grade and recovery of ore which may be mined, inflation, changes in exchange rates, fluctuations in commodity prices, delays in exploration and development of any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise, failure to raise sufficient funds to finance completion of exploration and development programs and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results.

Selected Quarterly Information

| | Revenues | Expenses | Net income/ (loss) | Basic and fully diluted net income/ (loss) per share |
|-----------------------------|----------|-----------|--------------------------|---|
| | \$ | \$ | \$ | \$ |
| 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) |
| 2008-Q2 – November 30, 2007 | 1,882 | 133,612 | (131,730) | (0.01) |
| 2008-Q3 – February 29, 2008 | 112 | 84,158 | (832,472) | (0.04) |

Results of Operations

Three months

General corporate costs were \$65,441 (2007-\$146,006) during the quarter, excluding the effect of stock-based compensation. The decrease results principally from a decrease in rent paid, reductions in general office expense, professional fees, shareholder relations expense and travel on reduced activity. Amortization of stock-based compensation fell on the elimination of vesting options associated with the resignation of the Company's former President and complete vesting of previously issued options.

Interest costs totalled \$17,239 (2007-\$14,985) during the quarter. Interest costs increased as a consequence of the imposition of Part XII.6 tax on unexpended Canadian exploration expenditures for flow-through purposes. Interest costs also include charges from Darnley Bay Resources Ltd. In respect of land payments made to the Inuvialuit on behalf of Diadem.

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 \$925, were accumulated in accordance with Diadem's accounting policies and then charged to operations as exploration.

During calendar 2007, Diadem was unable to complete its exploration programs and satisfy obligations to expend Canadian Exploration Expense for flow-through expenditures renounced to investors effective December 31, 2006. Consequently, the Company reversed \$748,426 of a previously recognized future tax benefit and recorded a credit for the same amount to the cost of issuing shares.

As a result of its activities, the Company recorded a net loss of \$832,472 or \$0.04 per share during the quarter compared to net income of \$813,328 or \$0.05 per share during the corresponding quarter of fiscal 2007.

Nine months

General corporate costs were \$215,681 (2007-\$299,449) during the nine months, excluding the effect of stock-based compensation. The decrease results principally from an increase in cost of services rendered by one officer of the Company offset by a reductions in general office expense, professional fees, shareholder relations expense, travel and office expenses on reduced activity and no longer being subject to Ontario capital tax. Amortization of stock-based compensation fell on the elimination of vesting options associated with the resignation of the Company's former President and complete vesting of previously issued options.

Interest costs totalled \$140,430 (2007-\$61,040) during nine months. 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 January 31, 2007.

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 \$12,220, 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 \$1,113,918 or \$0.06 per share during the nine months compared to net income of \$557,396 or \$0.03 per share during the corresponding nine months of fiscal 2007. Nine month results in 2007 were affected by recognition of a future tax benefit of \$1,019,686. During the nine months ended February 29, 2008, this benefit was reduced by \$748,426 as a consequence of the under-expenditure of the previously renounced flow-through expense.

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 attain positive cash flows from operations. The Company's only source of funding during the first nine months of fiscal 2008 was recovery of sales and goods and services taxes. Other than the capital markets the Company has no other sources for funding the Company's operations.

During July and November 2006, the Company raised \$761,650 and \$2,061,402, respectively, by way of flow-through financings. As a result of environmental permitting delays, the Company failed to incur, prior to December 31, 2007, approximately \$2,050,000 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.

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 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 for tax penalties and interest has been made as the magnitude of any potential shortfall is not determinable. Other taxes payable include \$289,261 in Part XII.6 tax on flow-through CEE incurred subsequent to the year of renunciation to investors.

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 February 29, 2008, the Company had working capital deficiency of \$789,379.

Share Capital

At April 28, 2008, there were 18,944,647 common shares (fully diluted: 24,459,958) issued and outstanding. There were 306,250 stock options and 5,209,061 warrants outstanding to acquire up to 5,515,311 common shares.

Exploration Programs

| | Balance May 31, 2007 \$ | Additions \$ | Write-downs \$ | Balance February 29, 2008 \$ |
|-----------------------------------|----------------------------------|-----------------|-------------------|------------------------------------|
| 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 | 637,205 | - | 2,255,082 |
| Duquesne West, Quebec | - | 12,220 | (12,220) | - |
| | 1,617,877 | 649,425 | (12,220) | 2,255,082 |
| Total | 2,760,573 | 649,425 | (12,220) | 3,397,778 |

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, at that time 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 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 in California) other than through Diadem or with the consent of Diadem.

Under the agreement with DBR, 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, Diadem 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 entered into an amending agreement with DBR whereby its 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. In fiscal 2007, the Company relinquished and wrote-off the carrying value of the lands south of the 68th parallel.

On November 29, 2007, the Company and DBR entered into a further amending agreement providing for an extension to June 30, 2008 of the period during which Diadem may earn-in to a 50% interest in the Franklin Project. To satisfy Diadem's 50% earn-in requirement it is required to incur expenditures aggregating \$1.0 million in the period from September 1, 2007 through June 30, 2008, of which it has incurred approximately \$550,000 through February 29, 2008. The balance, being approximately \$450,000, is expected to be satisfied during the 2008 exploration program.

When Diadem has satisfied its earn-in requirements, it will have formed a 50/50 joint venture with DBR. Thereafter, DBR will be required to carry its 50% pro rata share of on-going exploration and development costs or suffer dilution of its interest. Under the amended agreement, once Diadem has earned its 50% interest it will advance \$1.0 million to subsequent Franklin Project programs on behalf of DBR and DBR will not have to contribute the first \$1.0 million of its 50% share of costs. If Diadem advances the \$1.0 million, DBR will repay such advance, without interest, out of its share of production from a diamond mine on the Franklin Project.

If a decision is made to carry out a feasibility study for a diamond mine, Diadem has the right to fund the study and, if the property is advanced to commercial production, Diadem's 50% interest will increase to 75% and DBR's interest will decrease to 25%.

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.

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 three officers, being 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 period ended May 31, 2007 and the period ended February 29, 2008 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 fair 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 and nine month periods ended February 29, 2008, 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 and nine month periods ended February 29, 2008.

Related Party Information

Included in accounts receivable is an amount due from one corporation over which a director has direction. Included in accrued liabilities is \$75,000 (May 31, 2007-\$12,040) due, directly and indirectly, to one director for administrative services rendered to the Company. Cost of services rendered to the Company by two directors was \$89,280 (2007-\$137,000) during the nine month periods ended February 29. In addition and during the nine months ended February 28, 2007, \$105,000 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.

At February 29, 2008, the Company had \$77,771 in cash available to meet its 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

April 29, 2008