

DIADEM

RESOURCES LTD.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS (Unaudited - Prepared by Management)

February 29, 2008

Notice: The unaudited interim consolidated financial statements of Diadem Resources Ltd. ("Company") as at and for the three and nine months ended February 29, 2008 ("Financial Statements") have been prepared by management and have not been reviewed by the Company's auditors. The Financial Statements should be read in conjunction with the consolidated financial statements for the year ended May 31, 2007 which are available at the SEDAR website at www.sedar.com. The Financial Statements are presented in Canadian dollars, unless otherwise indicated, and are prepared in accordance with Canadian generally accepted accounting principles.

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

(Expressed in Canadian Dollars)	February 29 2008	May 31 2007
	\$	\$
ASSETS		
Current		
Cash	17,771	592,007
Accounts receivable-		
Due from related parties (Note 7)	8,059	4,453
Taxes recoverable (Note 4)	1,841	92,112
Prepaid expenses	5,301	3,338
	32,972	691,910
Mineral interests (Note 3)	3,397,778	2,760,573
Equipment (Note 5)	5,238	6,759
	3,435,988	3,459,242
LIABILITIES		
Current		
Accounts payable and accrued liabilities	520,609	318,432
Other taxes payable (Note 10)	301,742	163,948
	822,351	482,380
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	33,824,873	33,824,873
Warrants	543,799	543,799
Contributed surplus	1,667,096	1,664,828
Deficit	(33,422,131)	(33,056,638)
	2,613,637	2,976,862
	3,435,988	3,459,242

Commitments and contingencies (Notes 1, 3 and 10)

DIADEM RESOURCES LTD.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited)

(Expressed in Canadian Dollars)	Three months ended February 29		Nine months ended February 29	
	2008	2007	2008	2007
	\$	\$	\$	\$
REVENUE				
Interest income	112	10,127	6,400	15,703
Gain (loss) on sale of investment	-	(200)	-	(200)
	112	9,927	6,400	15,503
EXPENSES				
Amortization	507	585	1,521	1,622
Interest	17,239	14,985	140,430	61,040
Financial and advisory services	-	-	-	106,200
General corporate costs	65,441	146,006	215,681	299,449
Stock-based compensation	-	1,894	2,268	9,460
Foreign exchange (gain) loss	46	1	(228)	1
Exploration	925	-	12,220	-
Write-down of mineral interests	-	52,814	-	-
Write-off of other investment	-	-	-	21
	84,158	216,285	371,892	477,793
INCOME (LOSS) before income taxes	(84,046)	(206,358)	(365,492)	(462,290)
Future income tax (expense) recovery	(748,426)	1,019,686	(748,426)	1,019,686
NET INCOME (LOSS) for the period	(832,472)	813,328	(1,113,918)	557,396
Costs associated with issuance of capital stock	748,426	(1,040,281)	748,426	(1,241,791)
DEFICIT, beginning of period	(33,338,084)	(30,723,921)	(33,056,638)	(30,266,479)
DEFICIT, end of period	(33,422,130)	(30,950,874)	(33,422,130)	(30,950,874)
Net income (loss) per share -basic and fully diluted	(0.04)	0.04	(0.06)	0.03
Weighted average number of shares	18,944,647	16,398,128	18,944,647	16,472,135

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		Nine months ended	
	February 29		February 29	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net (loss) for the period	(832,472)	813,328	(1,113,918)	557,396
Adjustment for items not affecting cash:				
Amortization	507	585	1,521	1,622
Stock-based compensation	-	1,894	2,268	9,460
Future income tax expense (recovery)	748,426	(1,019,686)	748,426	(1,019,686)
Write-off of other investment	-	-	-	21
	(83,539)	(203,879)	(361,703)	(451,187)
Net changes in non-cash working capital balances:				
Prepaid expenses	142	(28,040)	(1,963)	(139,651)
Receivable from related parties	(8,012)	-	(3,606)	-
Taxes recoverable	73,355	-	90,271	-
Accounts payable and accrued liabilities	148,222	10,045	202,177	(33,131)
Other taxes payable	24,482	-	137,794	-
Cash flows provided by (used in) operating activities	154,650	(221,874)	62,970	(623,969)
INVESTING ACTIVITIES				
Equipment	-	-	-	(2,280)
Mineral interests	(176,621)	(615,075)	(637,206)	(1,507,761)
Cash flows (used in) investing activities	(176,621)	(615,075)	(637,206)	(1,510,041)
FINANCING ACTIVITIES				
Common shares issued for cash	-	440,400	-	2,856,052
Costs associated with issuance of capital stock	-	(20,595)	-	(196,932)
	-	419,805	-	2,659,120
Change in cash during the period	(21,971)	(417,144)	(574,236)	525,110
CASH , beginning of period	39,742	1,205,010	592,007	262,756
CASH , end of period	17,771	787,866	17,771	787,866

Supplemental information (Note 8)

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 North America 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.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The recoverability of the amounts shown for mineral interests is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, upon future profitable production and/or the proceeds from the disposition thereof. To date, the Company has not earned significant revenues.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and on the assumption that the Company will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations 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 achieve positive cash flows from operations.

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 nine month periods ended February 29, 2008 are not necessarily indicative of the results expected for the full year.

These interim unaudited 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, 2007 and should be read in conjunction with those audited financial statements and notes thereto.

Certain comparative figures have been reclassified to conform with the current presentation.

On June 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook sections 1530, *Comprehensive Income*; Section 3251, *Equity*; section 3855, *Financial Instruments-Recognition and Measurement*; section 3861, *Financial Instruments-Disclosure and Presentation*; and section 3865, *Hedges*. Application of these standards resulted in no changes to amounts previously reported.

Financial Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2008 AND 2007

(Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and, therefore, no statement of other comprehensive income has been prepared.

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 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 and nine month periods ended February 29, 2008.

3. MINERAL INTERESTS

	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

	Balance May 31, 2006 \$	Additions \$	Write-downs \$	Balance February 29, 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
Total	2,788,881	226,479	-	4,635,393

3. MINERAL INTERESTS (Continued)

(a) Franklin Project, Northwest Territories

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, 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, 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. 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 an 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2008 AND 2007

(Expressed in Canadian Dollars)

3. MINERAL INTERESTS (Continued)

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.

(b) Duquesne West Project, Quebec

During May 2007, the Company elected not to proceed further with the 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 were accumulated in accordance with Diadem's accounting policies and then charged to operations as exploration.

4. TAXES RECOVERABLE

Taxes recoverable consist of:

	February 29, 2008	May 31 2007
	\$	\$
Province of Quebec income and mining tax credits	-	18,910
Province of Quebec sales tax credits	-	64,744
Government of Canada goods and services tax credits	1,841	8,458
	<u>1,841</u>	<u>92,112</u>

5. EQUIPMENT

	February 29, 2008		May 31, 2007	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Computer and office equipment	15,694	10,456	5,238	6,759

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.

During 2006, the common shares of Company were consolidated on a 1-for-16 basis. These consolidated financial statements fully reflect this share consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2008 AND 2007

(Expressed in Canadian Dollars)

6. SHAREHOLDERS' EQUITY (continued)

(b) Issued and Outstanding Shares

Details of issued and outstanding common shares are as follows:

	Nine months ended February 29, 2008		Nine months ended February 28, 2007	
	#	\$	#	\$
Balance, May 31	18,944,647	33,824,873	9,679,394	31,080,221
Issued pursuant to:				
Shares issued for cash	-	-	110,000	33,000
Conversion of Series B Preference Shares	-	-	28,850	54,475
Acquisition of Duquesne West Project	-	-	1,250,000	338,750
Issue of warrants	-	-	-	(233,136)
Flow-through financings	-	-	7,876,403	2,823,053
Balance, February 29	18,944,647	33,824,873	18,944,647	34,096,363

(c) Warrants

A summary of the Company's warrant activity during the six months ended November 30, 2007 and 2006 is as follows:

	February 29, 2008		February 28, 2008	
	Weighted Average		Weighted Average	
	Warrants	Exercise price	Warrants	Exercise price
	#	\$	#	\$
Balance, May 31	5,209,061	0.45	2,239,583	1.60
Issued	-	-	6,444,361	0.45
Change in warrant price	3,913,776	0.60	-	-
Cancelled	-	-	(1,235,300)	(0.45)
Expired	(3,913,766)	(0.45)	(2,239,583)	(1.60)
Balance, February 29	5,209,061	0.56	5,209,061	0.45

A summary of warrants outstanding at February 29, 2008 is as follows:

Expiry date	Warrants	Exercise Price	Fair Value
	#	\$	\$
November 15, 2008	3,913,766	0.60	408,576
December 20, 2008	1,295,295	0.60	135,223
	5,209,061	0.60	543,799

(e) Stock Option Plan

The Company has a stock option plan to aid in retaining and encouraging directors, senior officers, employees and service providers of the Company. At the annual general meeting of shareholders held November 27, 2007, the shareholders adopted and approved an amendment to Diadem's stock option plan which permits reserving for issuance under the stock option plan, at any time, of a maximum of 10% of the issued and outstanding shares of the Company at the date of grant. The options are non-assignable and may be granted for a term not exceeding five years. The exercise

6. SHAREHOLDERS' EQUITY (continued)

price is fixed by the board of directors of the Company at the time of grant, subject to all applicable regulatory requirements.

A summary of the Company's stock option activity is as follows:

	<u>Options</u> #	<u>Weighted average</u> <u>exercise price</u> \$
Outstanding, May 31, 2007	390,625	1.62
Expired	(84,375)	(1.60)
Outstanding, February 29, 2008	306,250	1.61

The following is a summary of stock options outstanding at November 30, 2007:

<u>Expiry Date</u>	<u>Exercise Price</u> \$	<u>Options</u> #
May 28, 2008	1.60	196,875
October 8, 2008	1.84	6,250
October 8, 2008	1.60	31,250
October 18, 2009	1.68	15,625
November 1, 2009	1.60	31,250
July 19, 2010	1.60	25,000
		306,250

(f) Contributed Surplus

A summary of the Company's contributed surplus activity is as follows:

	\$
Balance, May 31, 2007	1,664,828
Expiry of warrants	-
Stock-based compensation	2,268
Balance, February 29, 2008	1,667,096

7. RELATED PARTY TRANSACTIONS AND BALANCES

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 the two directors was \$89,280 (2007-\$137,000) during the nine month period 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

8. SUPPLEMENTARY CASH FLOW INFORMATION

	2008	2007
	\$	\$
Income taxes paid	-	-
Interest paid	106	-
Value of Series B first preference shares exchanged for common shares of the Company	-	54,475
Issue of 1,250,000 common shares to acquire Duquesne West, Project	-	338,750
Value of warrants charged to cost of equity financing	-	25,173

9. INCOME TAXES

As at February 29, 2008, the Company had available for deduction against future taxable income, non-capital losses of approximately \$4,736,000 which expire as follows:

<u>Year</u>	<u>Amount</u>
	\$
2008	841,000
2009	921,000
2010	238,000
2014	732,000
2015	1,075,000
2026	369,000
2027	560,000
	<u>4,736,000</u>

In addition, the Company has capital losses aggregating \$1,111,000, Canadian exploration and development expenditures of \$5,728,000, and foreign exploration and development expenses aggregating \$12,168,000, each of which are available for deduction against future taxable income under certain circumstances.

10. COMMITMENTS AND CONTINGENCIES

The Company was committed to incur prior to December 31, 2007, on a best efforts basis, approximately \$2,124,000 in qualifying Canadian exploration expenditures ("CEE") pursuant to a private placement for which flow-through proceeds had been received during 2006 and renounced to the subscribers with an effective date of December 31, 2006.

Diadem did not incur sufficient CEE during 2007 to fully satisfy its flow-through commitments. In order to address the impact on subscribers to the Company's 2006 flow-through financings, the Company proposes to seek to enter into agreements with the affected subscribers to satisfy the indemnity provisions of 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. No accrual has been made as the magnitude of any potential shortfall is not determinable.

Other taxes payable consists of Part XII.6 tax on flow-through Canadian Exploration Expenditures incurred subsequent to the year of renunciation to investors. Since the Company not incur the amount renounced to investors prior to December 31, 2007, the Company may be assessed further penalties.

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of exploited minerals and metals.

11. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. 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.

Commodity Price Risk

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 and gold.