



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

AUGUST 31, 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 months ended August 31, 2008. This MDA has been prepared as at October 30, 2008, unless otherwise indicated. This MDA is intended to supplement and complement the financial statements and notes thereto for the three months ended August 31, 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 exploration 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.

Selected Quarterly Financial Information

	Revenues	Expenses	Net income/ (loss)	Basic and fully diluted net income/ (loss) per share
	\$	\$	\$	\$
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)
2008-Q4 - May 31, 2008	228	284,647	(295,847)	(0.02)
2009-Q1 - August 31, 2008	16	52,720	(52,704)	(0.00)

Results of Operations

General corporate costs were \$49,232 during the first quarter of fiscal 2009 compared to \$66,544 during 2008, excluding the effect of stock-based compensation. The single largest component of general corporate costs consists of accrued compensation for the officers of the Company. The chairman has not been paid since August 2007 and other management has not been paid since October 2007. The Company recognized \$Nil (2008-\$1,940) in non-cash stock-based compensation. There were no new grants of stock options during 2008 and 2007. All previous grants of stock options have been amortized to the statement of operations in prior periods.

Interest costs totalled \$3,133 during the first quarter of fiscal 2009 (2008-\$76,706). Interest costs decreased as the effect of accruing Part XII.6 tax and penalties on unexpended Canadian exploration expenditures for flow-through purposes ended in February 2008. The Company accrued \$2,421 of interest (2008-\$Nil) on a \$100,000 loan from Darnley Bay Resources in respect of payments to the Inuvialuit Regional Corporation and \$712 in respect of the demand notes.

During the first quarter of 2009, interest income decreased to \$16 from \$4,406 on significantly reduced cash balances.

For the first quarter of fiscal 2009, Company recorded a net loss of \$52,720 or \$0.00 per share compared to a net loss of \$149,716 or \$0.01 per share during first quarter of fiscal 2008.

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.

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.

Subsequent to August 31, 2008, the Company retained Wakabayashi Fund LLC of Tokyo, Japan to assist Diadem in structuring and arranging one or more financings over a six month period. Under the agreement with Wakabayashi Fund, Diadem will pay a 7% cash fee on all capital raised by the fund. In addition, Diadem paid an initial work fee of \$50,000 through the issuance of 500,000 treasury common shares priced at \$0.10 per share. Additional work fees of \$50,000 are due on November 30, 2008 and January 31, 2009. Diadem has the right to make payment of the work fees by issuing treasury common shares at \$0.10 per share.

Diadem granted Wakabayashi Fund an agent's option to purchase an additional 500,000 treasury common shares at a price of \$0.15 per share until September 30, 2009 and, if not previously exercised, thereafter at a price of \$0.25 per share until September 30, 2010.

The Company has reported significant losses for several years and has no mining operations and is, therefore, considered an exploration stage company. Operating cash flow for the quarter ended August 31, 2008 was positive solely as a result of reliance on suppliers, officers and directors to perform work on the promise of payment. Accounts payable includes fees and expenses payable to officers and directors of the Company in the aggregate amount of \$236,555.

At August 31, 2008, the Company had a working capital deficiency of \$1,682,767.

Contingent tax liability

As at December 31, 2007, Diadem was unable to satisfy approximately \$2,095,000 in flow-through funding pursuant to private placements for which flow-through proceeds had been received during 2006 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 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.

Since the Company did not meet flow-through share expenditure requirements agreed to through various subscription agreements entered into during 2006, the Company has amended the renunciations provided to subscribers of these shares. The Company has accrued all penalties and interest charges related to this matter that could be reasonably estimated; however, the subscription agreements provided certain indemnities for certain amounts that will become payable by the subscribers upon reassessment of their personal tax returns with the amended and reduced renunciations. The contingent liability that may be created by this indemnity will depend on various items, including each individual subscriber's personal tax situation, and cannot therefore be reasonably estimated.

Status of Joint Venture with Darnley Bay Resources Limited

On November 29, 2007, the Company and Darnley Bay Resources Limited ("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 was required to incur expenditures aggregating \$1.0 million during the period from September 1, 2007 through June 30, 2008. This expenditure requirement was satisfied by June 30, 2008.

Now that Diadem has satisfied its earn-in requirements, 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, Diadem 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%.

Without further funding, Diadem will be unable to fund the next stage of exploration on the Franklin Property. The Company continues to apprise Darnley Bay Resources of its efforts and to fulfill a minimum exploration program acceptable to both parties. In addition, Darnley Bay has demanded payment of its \$100,000 loan plus accrued interest.

Funding

The effect of credit market turmoil globally has affected the ability of junior mining companies, in Canada, to finance their continuing operations. In particular, Diadem needs to raise "hard" non-flow-through funds to pay its recorded and contingent liabilities. There is no assurance that the Company will be able to raise sufficient capital to satisfy its obligations.

Issued Common Shares

At October 30, 2008, there were 19,444,647 shares issued and outstanding. In addition there were 131,250 employee stock options exercisable at an average price of \$1.69 per share, 5,209,061 warrants exercisable at a price of \$0.60 per share and 500,000 compensation warrants exercisable at a price of \$0.15 per share. As at October 30, 2008, none of the options or warrants is "in-the-money".

The Company considers in its management of capital all components included in shareholders' equity plus accounts payable. Its objectives are to ensure that the Company will continue to operate as a going concern in order to pursue development of its Franklin Property as well as to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, seek debt financing, or acquire or dispose of assets. The Company, on approval from the Board of Directors, will make changes to its capital structure as deemed appropriate under specific circumstances.

Exploration Programs

	<u>Balance</u> <u>May 31, 2008</u>	<u>Additions</u>	<u>Write-downs</u>	<u>Balance</u> <u>August 31, 2008</u>
	\$	\$	\$	\$
Acquisition costs				
Franklin Project,				
Northwest Territories	1,142,696	-	-	1,142,696
Deferred exploration costs				
Franklin Project,				
Northwest Territories	2,708,918	100,734	-	2,809,652
	<u>3,851,614</u>	<u>100,734</u>	<u>-</u>	<u>3,952,348</u>

Franklin Project

Now that Diadem has satisfied its earn-in requirements, 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, Diadem 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%.

Diadem is formulating a diamond drill program to test a number of ground magnetic anomalies believed to be reflecting underlying, diamond-bearing, kimberlite pipes. This drill program is expected to commence in the spring of 2009, assuming all required permits are received and adequate financing is obtained.

Expenditures during the first quarter of fiscal 2009 consisted mainly of paying assessment and property holding costs and fees related to planning the next stage of exploration.

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 financial statements follow the same accounting policies and methods set forth in the Company's audited financial statements as at and for the year ending May 31, 2008, except as noted below.

Capital Disclosure and Financial Instruments-Disclosure and Presentation

On December 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Handbook Section 1535-Capital Disclosures; Handbook Section 3862-Financial Instruments-Disclosure; and Handbook Section 3863-Financial Instruments-Presentation. These new accounting standards are effective for interim and annual financial statements for reporting periods beginning January 1, 2008. Effective June 1, 2008, the Company adopted these standards.

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) qualitative data concerning what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Beyond additional disclosures, the adoption of these standards would not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 10.

Handbook Sections 3862 and 3863 replace Handbook Section 3861-Financial Instruments-Disclosure and Presentation, revising and enhancing disclosure requirements for financial instruments and carrying forward, unchanged, its presentation requirements. These new Handbook Sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

On February 13, 2008, the Financial Accounting Standards Board confirmed that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is assessing the impact of the conversion from Canadian generally accepted accounting principles to IFRS on the financial statements and will develop a conversion implementation plan.

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, the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and no employees. The involvement of these officers in all aspects of the design and operation of disclosure controls and procedures was effective as at and for the period ended August 31, 2008 and provides reasonable assurance that all material information relating to the Company is disclosed. The audit committee is actively involved in quarterly reviews and is comprised of three independent directors.

The Company evaluated the design of its internal controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended May 31, 2008. Based on this evaluation, management has concluded that the design of these internal controls and procedures over financial reporting was effective.

There were no changes in the operation of disclosure controls and procedures during the quarter ended August 31, 2008.

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

At August 31, 2008, due from related parties includes \$Nil (May 31, 2008-\$4,504) due from a corporation over which the Chairman of the Company has direction and control. The expenses were incurred on behalf of the related party and in respect of its regulatory filings. The amount was collected during the quarter.

At August 31, 2008, accounts payable and accrued liabilities include \$71,888 (May 31, 2008-\$71,888) due to two directors in their capacity of overseeing the Franklin Project exploration program. In addition, at August 31, 2008, \$100,000 (May 31, 2008-\$75,000) was payable to the Chairman of the Company in respect of administrative services.

Demand notes include \$20,000 received from two directors as loans to cover the cost of certain expenditures incurred by the Company in the ordinary course of business. The cost of services rendered to the Company, directly and indirectly, by the Chairman was \$25,000 during the first quarter of fiscal 2009, and \$35,000 by two directors and the chairman during the first quarter of fiscal 2008.

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

The Company is considered to be in the development stage and has not yet recorded any revenues from its mining operations nor has the Company commenced commercial production on any of its properties. There can be no assurance that the Company will generate any revenues or that the assumed levels of expenses will prove to be accurate.

The Company expects to incur losses unless and until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The development of the Company's properties will require substantial resources to complete the development of its properties. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of on-

going development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, many of which are beyond the Company's control.

The Company's vulnerability to changes in metal prices may cause its share price to be volatile and may affect the Company's operations and financial results.

The Company's primary source of revenue will be the sale of diamonds. Accordingly, changes in the market price of diamonds will significantly impact the Company's profitability and share price. The Company's financial results will be very sensitive to external economic factors related to the price of diamonds. A major risk will arise if there is a prolonged period of lower diamond prices. Many factors beyond the Company's control influence the market price of diamonds. These factors include: global supply and demand; availability and costs of substitutes; speculative activities; international political and economic conditions; and production levels and costs in other gold-producing countries. By 2012 it is forecast that rough prices will rise by about 40% on average across diamond categories as supply continues to be almost flat and demand, particularly from India, China and the Gulf (together making up 18% of the retail market in 2006), continues its robust growth. Purchases in those three areas, which are growing at almost twice the world average, are on a cash basis. Latin America and Asia (6% of retail sales) are also doing well.

The Company is subject to extensive environmental legislation and the costs of complying with these regulations may be significant. Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.

Environmental legislation relating to land, air and water affects nearly all aspects of the Company's operations. This legislation requires the Company to obtain various operating licenses and also imposes standards and controls on activities relating to exploration, development and production of gold and other precious metals. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Company may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results. While the Company is unaware of any existing material environmental liabilities, it cannot guarantee that no such liabilities currently exist or will occur in the future.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of protecting human health and the environment. Some of the issues currently under review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact. The Company expects that capital and operating expenditures will increase as a result of compliance with the introduction of new, more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean-up orders, imposition of penalties, liability for related damages and the loss of operating permits. While the Company believes it is now in material compliance with existing environmental legislation, it cannot give assurances that it will, at all future times, be in compliance with all federal and provincial environmental regulations or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

The mining industry is intensely competitive and the Company must compete in all aspects of its operations with a substantial number of other junior mining companies, some of which have greater technical and financial resources. The Company may be at a disadvantage with respect to some of its competitors in the acquisition and/or development of high potential mining properties throughout the principal markets and geographical areas in which the Company carries on its business activities.

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.

Forward Looking Information

This MDA contains “forward looking information”. Forward looking information includes, but is not limited to, statements concerning mineral resource estimates and exploration budgets for the Franklin Project and other statements which are not historical facts.

In certain cases, forward looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will be taken”, “occur” or “be achieved” and include the negative variation of such phrases.

With respect to forward looking information contained in this MDA, the Company has made assumptions regarding, among other things, the Company’s ability to generate sufficient cash flow from operations and access existing credit facilities and capital markets to meet its future obligations, the regulatory framework in the provinces in which its properties are located with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, and the Company’s ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company’s demand.

Although the Company believes that its expectations reflected in forward looking information are reasonable, such forward looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or the Company’s projects to be materially different from any future results, performance or achievements expressed or implied by the forward looking information. Such factors include, risks related to failure to convert estimated mineral resources to reserves, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, future prices of gold, unexpected increases in capital or operating costs, possible variations in mineral resources, grade or recovery rates, failure of equipment or processes to operate as anticipated, accidents, labour disputes and other risks of the mining industry, delays in obtaining governmental consents, permits, licences and registrations or financing or in the completion of development or construction activities, uncertainties relating to the availability and costs and availability of financing needed in the future, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices and uninsured risks, as well as those factors discussed under “Risks” in this MDA.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward looking information. The forward looking information contained herein, unless stated otherwise, is made as of the date of this MDA and the Company makes no responsibility to update them or to revise them to reflect new events or circumstances, except as required by law.

Any mineral resource and mineral reserve figures referred to in this MDA are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource and reserve estimates referred to in this MDA are well established, by their nature resource and reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

Paul A. Carroll
Chairman and
Chief Executive Officer

David J. Layman
Vice-President, Finance

October 30, 2008

