



**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited - Prepared by Management)**

**AUGUST 31, 2008**

**(Expressed in Canadian Dollars)**

**Notice to Reader:**

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, notice is hereby given that the accompanying comparative interim financial statements of the Company as at and for the three months ended August 31, 2008 and 2007 have been prepared in accordance with Canadian generally accepted accounting principles and have not been audited or reviewed by the Company's auditors. The accompanying financial statements are the responsibility of the Company's management and should be read in conjunction with the financial statements for the year ended May 31, 2008 which are available at the SEDAR website at [www.sedar.com](http://www.sedar.com). The accompanying consolidated financial statements, which are presented in Canadian dollars unless otherwise indicated, include the selection of appropriate accounting principles, judgments and estimates that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

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(An Exploration Stage Company)

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DIADEM RESOURCES LTD.  
 (An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
 (Unaudited)

	August 31 2008 \$	May 31 2008 \$
(Expressed in Canadian Dollars)		
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	8,477	6,438
Accounts receivable-		
Due from related parties (Notes 6 and 8)	-	4,504
Taxes recoverable (Note 4)	2,206	28,872
Prepaid expenses	<u>5,093</u>	<u>5,197</u>
	15,776	45,011
<b>MINERAL INTERESTS</b> (Note 3)	3,952,348	3,851,614
<b>EQUIPMENT</b> (Note 5)	<u>4,376</u>	<u>4,731</u>
	<u>3,972,500</u>	<u>3,901,356</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Notes 3 and 8)	1,172,571	1,074,434
Demand notes (Notes 6 )	25,711	-
Other taxes payable (Note 11)	<u>500,261</u>	<u>500,261</u>
	<u>1,698,543</u>	<u>1,574,695</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Notes 7(a) and (b))	33,824,873	33,824,873
<b>WARRANTS</b> (Note 7(d))	543,799	543,799
<b>CONTRIBUTED SURPLUS</b> (Note 7(f))	1,667,538	1,667,538
<b>DEFICIT</b>	<u>(33,762,253)</u>	<u>(33,709,549)</u>
	<u>2,273,957</u>	<u>2,326,661</u>
	<u>3,972,500</u>	<u>3,901,356</u>

Commitments and contingencies (Notes 1, 3 and 11)

**(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(Unaudited)

(Expressed in Canadian Dollars)	Three months ended August 31	
	2008	2007
	\$	\$
<b>REVENUE</b>		
Interest income	<u>16</u>	<u>4,406</u>
	<u>16</u>	<u>4,406</u>
<b>EXPENSES</b>		
Amortization	355	507
Interest and penalties (Note 11)	3,133	76,706
General corporate costs	49,232	66,544
Exploration	-	8,425
Stock-based compensation	<u>-</u>	<u>1,940</u>
	<u>52,720</u>	<u>154,122</u>
<b>NET LOSS FOR THE PERIOD</b>	(52,704)	(149,716)
<b>DEFICIT</b> , beginning of year	<u>(33,709,549)</u>	<u>(33,056,638)</u>
<b>DEFICIT</b> , end of year	<u>(33,762,253)</u>	<u>(33,206,354)</u>
<b>NET LOSS PER SHARE</b> - basic and diluted	(0.00)	(0.01)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES</b>	18,944,647	18,944,647

See accompanying notes to the consolidated financial statements.

DIADEM RESOURCES LTD.  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (Unaudited)

	Three months ended August 31	
	2008	2007
(Expressed in Canadian Dollars)	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(52,704)	(149,716)
Adjustment for items not affecting cash:		
Amortization	355	507
Stock-based compensation	-	1,940
	<u>(52,349)</u>	<u>(147,269)</u>
Net changes in non-cash working capital balances:		
Prepaid expenses	104	3,164
Taxes recoverable	26,666	(7,129)
Due from related parties	4,504	3,379
Accounts payable and accrued liabilities	98,137	26,994
Demand notes	25,711	
Other taxes payable	-	66,842
	<u>155,122</u>	<u>93,250</u>
Cash flows from operating activities	<u>102,773</u>	<u>(54,019)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral interests	<u>(100,734)</u>	<u>(183,804)</u>
Cash flows from investing activities	<u>(100,734)</u>	<u>(183,804)</u>
Change in cash during the period	2,039	(237,823)
<b>CASH</b> , beginning of period	<u>6,438</u>	<u>592,007</u>
<b>CASH</b> , end of period	<u>8,477</u>	<u>354,184</u>

**SUPPLEMENTAL INFORMATION** (Note 9)

**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**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 an exploration 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, aboriginal claims and non-compliance with regulatory and environmental 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These interim unaudited financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. The results of operations for the three month period ended August 31, 2008 are not necessarily indicative of the results expected for the full year. These interim unaudited 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, 2008 and should be read in conjunction with those audited financial statements and notes thereto.

**Basis of Consolidation:**

The consolidated financial statements include the accounts of Diadem Resources Ltd. and its wholly-owned subsidiary Diadem Explorations Inc.

**New Accounting Pronouncements:**

- (i) Financial Instruments-Disclosure (Section 3862) and Financial Instruments-Presentation (Section 3863)

Section 3862 replaces the disclosure portion of Section 3861, Financial Instruments-Disclosure and Presentation, and enhances the disclosure requirements on the nature and extent of risks arising from financial instruments and how these risks are managed. Section 3863 carries forward the presentation requirements from Section 3861. Effective June 1, 2008, the Company adopted these standards. Beyond additional disclosures, the adoption of these new pronouncements would not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 13.

- (ii) Capital Disclosures (Section 1535)

Section 1535 establishes standards for disclosure of qualitative and quantitative disclosure about an entity's capital and how it is managed in order to enable users of its financial statements to evaluate

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the entity's objectives, policies and processes of managing its capital. Effective June 1, 2008, the Company adopted these standards. 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.

(iii) General Standards of Financial Statement Presentation (Section 1400)

The amendment to this section provides revised guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Effective June 1, 2008, the Company adopted the amendment to this section. Beyond additional disclosure, the adoption of this amendment would not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 1.

(iv) International Financial Reporting Standards

On February 13, 2008, the 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 its consolidated financial statements and will develop a conversion implementation plan.

**3. MINERAL INTERESTS**

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

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

Continued...

**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**3. MINERAL INTERESTS (Continued)**

**Franklin Project, Northwest Territories**

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%.

At August 31, 2008, accounts payable includes an amount of \$100,000 payable to DBR in respect of payments made to the IRC, plus accrued interest of \$9,059. This amount is considered a loan from DBR and bears interest at DBR’s bank prime plus 1%. Diadem was to repay the loan by March 31, 2008; however, at August 31, 2008, the loan remains outstanding. Also included in accounts payable and accrued liabilities is \$100,000 payable directly to the IRC.

**4. TAXES RECOVERABLE**

Taxes recoverable consist of:

	August 31 2008	May 31 2008
Government of Canada goods and services tax credits	\$ 2,206	\$ 28,872
	<u>2,206</u>	<u>28,872</u>

**5. EQUIPMENT**

	August 31 2008		May 31 2008	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Computer and office equipment	15,694	11,318	4,376	4,731

**6. DEMAND NOTES**

During the first quarter of 2008, an account payable to the Chairman of the Company, in the amount of \$10,000 was converted to a demand note. In addition, the chairman and a director contributed \$5,000 each and a third party contributed \$5,000. The notes are unsecured and bear simple interest at 10%.

**7. 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.

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**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**(b) Issued and Outstanding Shares**

Details of issued and outstanding common shares are as follows:

	Three months ended August 31 2008		Three months ended August 31 2007	
	#	\$	#	\$
<b>Balance, beginning of period</b>	18,944,647	33,824,873	18,944,647	33,824,873
Share issuances	-	-	-	-
<b>Balance, end of period</b>	18,944,647	33,824,873	18,944,647	33,824,873

**(c) Private Placement**

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.

**(d) Warrants**

A summary of the Company's warrant activity during the period ended August 31, 2008 is as follows:

	2009	
	Warrants	Weighted average exercise price
	#	\$
Outstanding, beginning of period	5,209,061	0.45
Granted	-	
Cancelled	-	
Expired	-	
<b>Outstanding, end of period</b>	<b>5,209,061</b>	<b>0.45</b>

A summary of warrants outstanding at August 31, 2008 is as follows:

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

Continued...

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Unaudited)

**7. SHAREHOLDERS' EQUITY (Continued)**

**(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. Diadem's stock option plan 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 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, and August 31, 2008	<u>131,250</u>	<u>1.62</u>

The following is a summary of stock options outstanding at August 31, 2008:

<u>Expiry Date</u>	<u>Exercise Price</u> \$	<u>Options</u> <u>Outstanding</u> #	<u>Options</u> <u>Exercisable</u> #
October 8, 2008	1.84	6,250	6,250
October 8, 2008	1.60	31,250	31,250
November 20, 2008	1.60	6,250	6,250
October 18, 2009	1.68	15,625	15,625
November 1, 2009	1.60	46,875	46,875
July 19, 2010	1.60	<u>25,000</u>	<u>25,000</u>
		<u>131,250</u>	<u>131,250</u>

**(f) Contributed Surplus**

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

	<u>2009</u> \$
Balance, beginning of period	1,667,538
Stock-based compensation	-
Expiry of warrants	-
Balance, end of period	<u>1,667,538</u>

**8. RELATED PARTY TRANSACTIONS AND BALANCES**

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.

Continued...

**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**8. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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.

**9. SUPPLEMENTARY CASH FLOW INFORMATION**

	<u>2009</u>	<u>2008</u>
	\$	\$
Income taxes paid	-	-
Interest paid	121	106

**10. MANAGEMENT OF CAPITAL**

The Company considers in its management of capital all components included in shareholders' equity and its debt obligations. Its objectives are to ensure that the Company will continue to operate as a going concern in order to pursue the development its mineral properties, to sustain future development and growth 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.

The Company is not subject to any externally imposed capital requirements or debt covenants. There was no change to the Company's approach to capital management during the three period ended August 31, 2008.

**11. COMMITMENTS AND CONTINGENCIES**

The Company was committed to incur prior to December 31, 2007, on a best efforts basis, approximately \$2,600,000 in qualifying CEE 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. As at December 31, 2007, this shortfall in expenditure was reduced to approximately \$2,095,000.

Diadem did not incur sufficient CEE during 2007 to fully satisfy its flow-through commitments. As a consequence, Diadem recorded approximately \$333,591 during 2008 (2007-\$88,920) in Part XII.6 tax and penalties which was included in the fiscal 2008 consolidated statement of operations under interest and penalties expense. Other taxes payable includes Part XII.6 tax payable in the aggregate amount of \$487,782.

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

**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**11. COMMITMENTS AND CONTINGENCIES (Continued)**

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.

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.

**12. FINANCIAL INSTRUMENTS**

The Company's financial assets and liabilities consist of cash, receivables, due from related parties, accounts payable and accrued liabilities and other taxes payable. Cash is classified as held-for-trading and is carried at fair value on the balance sheet due to the short-term nature of this financial instrument. Amounts receivable, accounts payable and accruals approximate their fair values due to the relatively short periods to maturity.

The Company's financial instruments are exposed to certain financial risks including currency risk, credit risk, liquidity risk and market risk.

**a) Currency risk**

The Company operates solely in Canada and a small portion of the Company's capital expenditures are denominated in the United States dollar and a significant portion of the Company's operating costs are denominated in the Canadian dollar. As a consequence, the Company is exposed to currency fluctuations relative to the United States dollar. A significant change in the currency exchange rate between the United States dollar and the Canadian dollar would not have a material effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

**b) Interest rate risk**

The Company is not exposed to significant interest rate price risk due to the short-term maturity of its monetary assets and liabilities.

**c) Credit risk**

Credit risk is the risk of unexpected financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk with respect to its accounts receivable comprised principally of goods and services tax recoverable; however, the risk is minimized because the amount due is from a subdivision of the Canadian federal government.

**d) Derivatives – mineral properties**

The Company retains and/or has obligations related to certain carried interest rights and royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral property interests to which they relate are not sufficiently developed to reasonably determine value.

**e) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and continuously monitors its capital expenditures and cash used in operations. To the extent that the Company expects that it does not have sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. At May 31, 2008, the Company is indebted to suppliers who may not provide future services if not paid.

Continued...

**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(Unaudited)

**13. SUMMARY OF SECURITIES AT AUGUST 31, 2008**

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Common shares outstanding	18,944,647
Unexercised options to acquire common shares	131,250
Unexercised warrants to acquire common shares	5,209,061
Fully diluted common shares	24,284,958

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None of the warrants and options is "in-the-money" at August 31, 2008.