



(A Development Stage Company)

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

AUGUST 31, 2009

(Expressed in Canadian Dollars)

Notice to Reader:

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, 2009 and 2008 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, 2009 which are available at the SEDAR website at 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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(A Development Stage Company)

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

	August 31 2009 \$	May 31 2009 \$
ASSETS		
CURRENT		
Cash	<u>24,247</u>	<u>1,407</u>
	24,247	1,407
MINERAL INTERESTS (Note 3)	3,853,320	3,927,174
EQUIPMENT (Note 4)	<u>1,240</u>	<u>1,440</u>
	<u>3,878,807</u>	<u>3,930,021</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 3 and 7)	1,108,066	1,151,080
Demand notes (Notes 5)	83,112	81,197
Due to Darnley Bay Resources Limited (Note 3)	112,626	111,807
Other taxes payable (Note 10)	<u>513,985</u>	<u>497,817</u>
	<u>1,817,789</u>	<u>1,841,901</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 6(a) and (b))	33,924,873	33,924,873
WARRANTS (Note 7(c))	18,018	18,018
CONTRIBUTED SURPLUS (Note 7(e))	2,211,337	2,211,337
DEFICIT	<u>(34,093,210)</u>	<u>(34,066,108)</u>
	<u>2,061,018</u>	<u>2,088,120</u>
	<u>3,878,807</u>	<u>3,930,021</u>

Commitments and contingencies (Notes 1, 3 and 10)

(A Development Stage Company)**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(Unaudited)

(Expressed in Canadian Dollars)	Three months ended August 31	
	2009	2008
	\$	\$
REVENUE		
Interest income	-	16
	<u>-</u>	<u>16</u>
EXPENSES		
Amortization	200	355
Interest and penalties (Note 10)	19,217	3,133
Management fees, salaries and benefits	3,840	43,500
Office expenses and other	776	1,758
Professional fees	588	1,291
Shareholder relations	2,481	2,683
Stock-based compensation	-	-
	<u>27,102</u>	<u>52,720</u>
NET LOSS FOR THE PERIOD	(27,102)	(52,704)
DEFICIT , beginning of period	<u>(34,066,108)</u>	<u>(33,709,549)</u>
DEFICIT , end of period	<u>(34,093,210)</u>	<u>(33,762,253)</u>
NET LOSS PER SHARE - basic and diluted	(0.00)	(0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	19,944,647	18,944,647

See accompanying notes to the consolidated financial statements.

DIADEM RESOURCES LTD.
 (A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Three months ended August 31	
	2009	2008
(Expressed in Canadian Dollars)	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(27,102)	(52,704)
Adjustment for items not affecting cash:		
Amortization	200	355
Interest accrued	19,217	711
	<u>(7,685)</u>	<u>(51,638)</u>
Net changes in non-cash working capital balances:		
Prepaid expenses	-	104
Taxes recoverable	-	26,666
Due from related parties	-	4,504
Accounts payable and accrued liabilities	(43,015)	98,137
Demand notes	-	25,000
Other taxes payable	(314)	-
	<u>(43,329)</u>	<u>154,411</u>
Cash flows from operating activities	<u>(51,014)</u>	<u>102,773</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral interests	<u>73,854</u>	<u>(100,734)</u>
Cash flows from investing activities	<u>73,854</u>	<u>(100,734)</u>
Change in cash during the period	22,840	2,039
CASH , beginning of period	<u>1,407</u>	<u>6,438</u>
CASH , end of period	<u>24,247</u>	<u>8,477</u>

SUPPLEMENTAL INFORMATION (Note 8)

(A Development Stage Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008

(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 a development stage company as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying property, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interest on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

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 Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

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, 2009 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, 2009 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.

Future Accounting Changes:

- (i) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan

(A Development Stage Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will be required to adopt IFRS on June 1, 2011. The transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended May 31, 2010. While the Company has begun to assess the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the CICA issued the new handbook Section 1582, Business Combinations, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquire and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on its consolidated financial statements, it is expected to be limited to any future acquisitions beginning in fiscal 2012.

(iii) Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard: Handbook Section 3064, Goodwill and Intangible Assets. These standards become effective for interim and annual financial statements for the Company's reporting periods beginning on June 1, 2009. There is no impact of this new accounting standard on the Company's financial statements.

(iv) Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued the new handbook Section, 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with IFRS. Section 1601 and 1602 change the accounting and reporting for ownership interest in the subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within the entity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of operations. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is de-consolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2012 in connection with the conversion to IFRS.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008

(Unaudited)

3. MINERAL INTERESTS

	<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	2,784,478	(73,854)	-	2,710,624
	<u>3,927,174</u>	<u>(57,374)</u>	<u>-</u>	<u>3,853,320</u>

	<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, Northwest Territories

Effective November 26, 2003, the Company entered into an agreement to form a joint venture ("Franklin Project") with Darnley Bay Resources ("DBR") for diamond exploration in an area near Paulatuk in the Northwest Territories.

Under the agreement, the Company 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, the Company 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, the Company will have the right to fund the feasibility study, and if the property is placed into commercial production, the Company's interest will increase to 75% and DBR's interest will decrease to 25%.

Effective March 25, 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.

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 was required to incur expenditures aggregating \$1.0

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3. MINERAL INTERESTS (Continued)

million during the period from September 1, 2007 through June 30, 2008. A list of expenditures in excess of \$1.0 million has been provided to DBR for the amended period for earn-in. DBR has not yet agreed to the list of expenditures. Under the terms of the agreement, 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.

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.

At August 31, 2009, \$100,000 is payable to DBR in respect of payments made to the Inuvialuit Regional Corporation ("IRC"), plus accrued interest of \$12,626. 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 May 31, 2009, the loan remains outstanding. Also included in accounts payable and accrued liabilities is \$140,544 payable directly to the IRC.

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.

The Company and DBR continue to negotiate the terms of their ongoing relationship.

4. EQUIPMENT

	August 31 2008		May 31 2009	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
	\$	\$	\$	\$
Computer and office equipment	4,355	3,115	1,240	1,440

5. DEMAND NOTES

The demand notes are unsecured, bear simple interest at 10% and are due on demand. At August 31, 2009, two directors of the Company had provided loans of \$5,000 each and the former Chairman and director of the Company had provided a loan of \$50,000. Subsequent to August 31, 2009, a former third party became a director of the Company and his loan of \$5,000 is now considered a loan from a related party.

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.

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6. SHAREHOLDERS' EQUITY (continued)

(b) Issued and Outstanding Shares

Details of issued and outstanding common shares are as follows:

	Three months ended August 31 2009		Three months ended August 31 2008	
	#	\$	#	\$
Balance, beginning of period	19,944,647	33,924,873	18,944,647	33,824,873
Share issuances	-	-	-	-
Balance, end of period	18,944,647	33,824,873	18,944,647	33,824,873

(c) Warrants

A summary of the Company's warrant activity during the period ended August 31, 2009 is as follows:

	2010	
	Warrants	Weighted average exercise price
	#	\$
Outstanding, beginning of period	500,000	0.15 / 0.25
Granted	-	
Cancelled	-	
Expired	-	
Outstanding, end of period	500,000	0.15 / 0.25

Diadem granted Wakabayashi Fund LLC of Tokyo, Japan, warrants to purchase 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 warrants were valued at \$18,018. The fair value was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; expected stock volatility of 151%; risk-free interest rate of 2.76% and an expected life of 2 years.

(d) 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 exercise price</u> \$
Outstanding, May 31, and August 31, 2009	<u>Nil</u>	<u>Nil</u>

(A Development Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008

(Unaudited)

6. SHAREHOLDERS' EQUITY (Continued)

(e) Contributed Surplus

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

	<u>2010</u>
	\$
Balance, beginning of period	2,211,337
Stock-based compensation	-
Expiry of warrants	-
Balance, end of period	<u>2,211,337</u>

7. RELATED PARTY TRANSACTIONS AND BALANCES

At August 31, 2009, demand notes include \$71,888 (May 31, 2008-\$71,888) due to three directors and one former director. This amount is unsecured, non-interest bearing, and due on demand. During 2009, these two directors forgave \$77,887 owing to them in respect of services rendered.

Included in accounts payable and accrued liabilities at August 31, 2009 is \$150,000 (May 31, 2009-\$150,000) recorded as owing to a former director and officer of the Company. Management believes that the former director and officer waived his right to these amounts during fiscal 2009, however, management has not recorded the reversal of such amounts as the former director and officer maintains that he remains entitled to them. Management intends to defend its position that the former director and officer waived these amounts.

See Note 5. Interest accrued on demand notes owing to the two current directors and former director during the Period ended August 31, 2009 totalled \$6,700 (May 31, 2009-\$4,889).

These related party transactions, except for the loans, 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.

8. SUPPLEMENTARY CASH FLOW INFORMATION

	<u>2010</u>	<u>2009</u>
	\$	\$
Income taxes paid	-	-
Interest paid	-	-

9. 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.

(A Development Stage Company)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008

(Unaudited)

9. MANAGEMENT OF CAPITAL (continued)

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, 2009.

10. 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 \$458,671 of Part XII.6 tax which is included in other taxes payable.

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.

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

The Company's financial assets and liabilities consist of cash, due from related parties, taxes recoverable, accounts payable and accrued liabilities, demand notes, due to Darnley Bay Resources Limited and other taxes payable. Cash is classified as held-for-trading and is carried at fair value. Amounts due from related parties and taxes recoverable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. Accounts payable and accrued liabilities, demand notes, due to Darnley Bay Resources Limited and other taxes payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying amounts of the Company's financial assets and liabilities approximate fair values because of the limited term of these instruments.

The Company's financial instruments are exposed to certain financial risks including currency risk, interest rate risk, liquidity risk and price 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.

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10. FINANCIAL INSTRUMENTS (continued)

b) Interest rate risk

The amount due to Darnley Bay Resources Limited bears interest at prime plus 1%. Sensitivity to a plus or minus 1% change in interest rates could affect its net loss by approximately \$1,000.

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

c) Derivatives – mineral properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties (“NSR”), 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.

d) 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 does not have sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. At May 31, 2009, the Company is indebted to suppliers who may not provide future services if not paid.

e) Price risk

Price risk is remote as the Company is not a producing entity.