

GGL DIAMOND CORP.

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2004

(UNAUDITED)

Notice to Reader: The Company's auditors have not reviewed the attached Interim Consolidated Financial Statements for the period ended August 31, 2004.

GGL DIAMOND CORP.

Consolidated Balance Sheets As At
(Unaudited)

	August 31, 2004	November 30, 2003
ASSETS		
Current		
Cash and cash equivalents	\$ 1,757,723	\$ 1,575,129
Sundry receivable	80,027	59,318
Prepaid expense	1,500	3,807
Marketable securities	3,800	3,800
	1,843,050	1,642,054
Mineral properties and deferred exploration costs (Note 1)	9,476,227	7,399,202
Property, plant and equipment	288,105	285,006
	\$ 11,607,382	\$ 9,326,262
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 398,181	\$ 211,460
Current portion of mortgage loan	13,124	13,124
	411,305	224,584
Mortgage loan	47,228	57,676
	458,533	282,260
SHAREHOLDERS' EQUITY		
Share capital (Notes 2, 3)	22,393,539	19,909,724
Contributed surplus	546,961	141,628
Deficit	(11,791,651)	(11,007,350)
	11,148,849	9,044,002
	\$ 11,607,382	\$ 9,326,262

Subsequent event Note 8

Approved by the Board of Directors:

Director "J. Haig deB. Farris"

Director "Raymond A. Hrkac"

Please see notes accompanying these financial statements.

GGL DIAMOND CORP.

Consolidated Statement of Operations and Deficit
For the three months ended
(Unaudited)

	August 31, 2004	August 31, 2003
Administration costs		
Amortization	\$ 831	\$ 495
Consulting fees	18,000	12,570
Corporate relations	10,960	17,225
Interest expense	199	279
Legal and audit	14,358	2,257
Licences, taxes, insurance and fees	1,706	8,892
Office services and expenses	33,695	21,739
Shareholders' meetings and reports	2,823	1,079
Stock based compensation	(37,149)	-
Travel	7,733	27,726
Operating loss	(53,156)	(92,262)
Other income (loss)		
Interest income	265	5,027
Foreign exchange adjustments	(1,241)	156
Part XII.6 Tax expense (Note 9)	(11,500)	-
General exploration costs	(29,504)	(24,235)
	(41,980)	(19,052)
Loss for the period	(95,136)	(111,314)
Deficit, beginning of period	(11,696,515)	(10,260,742)
Deficit, end of period	\$ (11,791,651)	\$ (10,372,056)
Net loss per share	\$ 0.001	\$ 0.002
Weighted average number of common shares outstanding	68,532,033	57,599,124

Please see notes accompanying these financial statements.

GGL DIAMOND CORP.

Consolidated Statement of Operations and Deficit
For the nine months ended
(Unaudited)

	August 31, 2004	August 31, 2003
Administration costs		
Amortization	\$ 2,493	\$ 1,485
Consulting fees	50,314	37,407
Corporate relations	22,815	59,911
Interest expense	811	722
Legal and audit	27,954	28,718
Licences, taxes, insurance and fees	28,477	27,256
Office services and expenses	104,026	58,423
Shareholders' meetings and reports	23,417	19,868
Stock based compensation	405,333	-
Travel	33,429	35,025
Operating loss	(699,069)	(268,815)
Other income (loss)		
Interest income	23,299	10,123
Foreign exchange adjustments	(2,095)	(2,372)
Part XII.6 Tax expense (Note 9)	(11,500)	-
General exploration costs	(94,936)	(57,771)
	(85,232)	(50,020)
Loss for the period	(784,301)	(318,835)
Deficit, beginning of period	(11,007,350)	(10,053,221)
Deficit, end of period	\$ (11,791,651)	\$ (10,372,056)
Net loss per share	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding	68,532,033	57,599,124

Please see notes accompanying these financial statements.

GGL DIAMOND CORP.

Consolidated Statement of Cash Flows
For the three months ended
(Unaudited)

	August 31, 2004	August 31, 2003
	<hr/>	<hr/>
Cash flows from (used in) operating activities		
Loss for the period	\$ (95,136)	\$ (111,314)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	8,593	6,486
- stock based compensation	(37,149)	-
	<hr/>	<hr/>
	(123,692)	(104,828)
Change in non-cash working capital items:		
- sundry receivable	82,641	80,449
- prepaid expenses	8,205	(215)
- accounts payable and accrued liabilities	(131,129)	36,971
	<hr/>	<hr/>
	(163,975)	12,377
	<hr/>	<hr/>
Cash flows from (used in) financing activities		
Shares issued for cash	1,113,000	1,320,267
Share issuance cost	-	(94,120)
Principal reduction of mortgage loan	(3,752)	(3,053)
	<hr/>	<hr/>
	1,109,248	1,223,094
	<hr/>	<hr/>
Cash flows from (used in) investing activities		
Mineral property costs	(638)	(34,504)
Deferred exploration costs	(671,843)	(557,987)
Purchase of capital assets	(2,741)	(3,945)
	<hr/>	<hr/>
	(675,222)	(596,436)
	<hr/>	<hr/>
Increase in cash and cash equivalents	270,051	639,035
Cash and cash equivalents, beginning of period	1,487,672	521,638
	<hr/>	<hr/>
Cash and cash equivalents, end of period	\$ 1,757,723	\$ 1,160,673
	<hr/>	<hr/>
Supplementary cash flow information		
Cash paid for interest charges	\$ 1,041	\$ 1,819
	<hr/>	<hr/>

Please see notes accompanying these financial statements.

GGL DIAMOND CORP.

Consolidated Statement of Cash Flows
For the nine months ended
(Unaudited)

	August 31, 2004	August 31, 2003
Cash flows from (used in) operating activities		
Loss for the period	\$ (784,301)	\$ (318,835)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	24,958	18,273
- stock based compensation	405,333	-
	(354,010)	(300,562)
Change in non-cash working capital items:		
- sundry receivable	(20,709)	35,941
- prepaid expenses	2,307	87,712
- accounts payable and accrued liabilities	186,721	(19,423)
	(185,691)	(196,332)
Cash flows from (used in) financing activities		
Shares issued for cash	1,494,000	2,556,767
Shares issued for cash – flow-through shares	1,004,500	-
Share issuance cost	(14,686)	(251,323)
Principal reduction of mortgage loan	(10,448)	(9,516)
	2,473,366	2,295,928
Cash flows from (used in) investing activities		
Mineral properties	(94,436)	(47,079)
Deferred exploration costs	(1,982,589)	(1,061,180)
Purchase of capital assets	(28,056)	(10,076)
	(2,105,081)	(1,118,335)
Increase in cash and cash equivalents	182,594	981,261
Cash and cash equivalents, beginning of period	1,575,129	179,412
Cash and cash equivalents, end of period	\$ 1,757,723	\$ 1,160,673
Supplementary cash flow information		
Cash paid for interest charges	\$ 3,487	\$ 4,141

Please see notes accompanying these financial statements.

GGL DIAMOND CORP.

Notes to Consolidated Financial Statements
August 31, 2004

These notes should be read in conjunction with the Audited Consolidated Financial Statements for the year ended November 30, 2003.

1. Mineral Properties and Deferred Exploration Costs

[-----December 1, 2003 to August 31, 2004-----]

	Balance November 30, 2003	property cost additions	exploration cost additions	written off	Balance August 31, 2004
Doyle Lake	\$ 718,214	\$ -	\$ 40,899	\$ -	\$ 759,113
Clinton	18,619	-	1,744	-	20,363
Fishback Lake and Dessert Lake	246,825	62,646	473,387	-	782,858
CH	4,077,385	-	1,451,119	-	5,528,504
Regional, NWT	41,944	-	815	-	42,759
Happy Creek	907,030	-	8,882	-	915,912
McConnell Creek and other	1,389,185	31,790	5,743	-	1,426,718
	\$ 7,399,202	\$ 94,436	\$ 1,982,589	\$ -	\$ 9,476,227

	Balance November 30, 2003	Dec 1/03 to Additions	August 31/04 written off	Balance August 31, 2004
Mineral property costs	\$ 483,597	\$ 94,436	\$ -	\$ 578,033
Deferred exploration costs	6,915,605	1,982,589	-	8,898,194
	\$ 7,399,202	\$ 2,077,025	\$ -	\$ 9,476,227

Exploration costs incurred during the nine months ended:

	August 31, 2004	August 31, 2003
Charter Aircraft	\$ 479,393	\$ 153,200
Drilling, trenching, sampling	284,401	249,583
Licences and recording fees	25,662	13,019
Project supplies	110,105	82,999
Salaries and wages	111,315	75,379
Survey	569,072	231,419
Technical and professional services	264,300	151,848
Transportation	138,341	103,733
	\$ 1,982,589	\$ 1,061,180

During the period, the Company staked six additional McConnell Creek claims in British Columbia and 13 Fishback Lake claims in the Northwest Territories.

GGL DIAMOND CORP.

Notes to Consolidated Financial Statements
August 31, 2004

2. Share Capital

- (a) Authorized: 250,000,000 common shares without par value.
- (b) Issued:

	Shares	Amount
Balance, November 30, 2003	65,528,020	\$19,909,724
Issued pursuant to flow-through share agreements		
Less share issuance costs of \$14,686	2,232,222	989,815
Exercise of warrants	6,010,000	1,202,000
Exercise of stock options	1,015,000	292,000
Balance, August 31, 2004	74,785,242	\$22,393,539

- (c) During the period ended August 31, 2004, the Company:
- (i) completed a private placement of 2,232,222 common shares at \$0.45 per share for gross proceeds of \$1,004,500. All of the proceeds from these flow-through shares have been spent on Canadian Exploration Expenses ("CEE").
- (i) issued 6,010,000 common shares pursuant to the exercise of share purchase warrants at \$0.20 per common share for gross proceeds of \$1,202,000.
- (d) At August 31, 2004, there were no share purchase warrants outstanding:

3. Stock Options

During the period, the Company's Board of Directors approved and granted 1,475,000 stock options to directors and employees of the Company. Each option entitles its holder to acquire one common share of the Company at \$0.50 per common share. These options are vested over eighteen months and are exercisable for five years.

The Company's Stock Option Plan was amended on January 15, 2004 to increase the maximum number of shares reserved for the granting of stock options. On May 14, 2004, at the shareholders Annual and Special Meeting, the shareholders approved the amendment to the Plan.

Stock options outstanding as at August 31, 2004:

	Shares	Weighted Average Exercise Price
Options outstanding at November 30, 2003	6,155,000	\$ 0.27
Granted	1,475,000	\$ 0.50
Exercised	(1,015,000)	\$ 0.29
Expired	(750,000)	\$ 0.30
Options outstanding at August 31, 2004	5,865,000	\$ 0.32

GGL DIAMOND CORP.

Notes to Consolidated Financial Statements
August 31, 2004

3. Stock Options (continued)

The weighted average fair value of the options granted during the period ended August 31, 2004 was \$0.50.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.20 - \$0.50	5,865,000	2.90	\$ 0.32	4,822,500	\$0.29

Under CICA Handbook, Section 3870, the Company is required to calculate and present the pro forma effect of all awards granted. For disclosure purposes, the fair value of each option granted in 2003 to an employee has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.5%, dividend yield 0%, volatility of 107%, and expected lives of approximately 5 years. Based on the computed option values and the number of the options issued in 2003, had the Company recognized compensation expense, the following would have been its effect on the Company's net loss:

	August 31, 2004	August 31, 2003
Net (loss) for the period:		
- as reported	\$(784,301)	\$(318,835)
- pro-forma	\$(793,386)	\$(329,498)
Basic and diluted (loss) per share:		
- as reported	\$(0.01)	\$(0.006)
- pro-forma	\$(0.01)	\$(0.006)

In 2004, the fair value of all options granted to employees, directors and consultants is recognized as stock based compensation cost in the financial statements. In calculating the stock based compensation for 2004 onwards, the Company has changed the expected life for options from 5 years to 3 years.

4. Related Party Transactions

During the nine months ended August 31, 2004, the Company was billed \$72,947 by a director who is the President and CEO (August 31, 2003– \$36,000) for consulting fees and technical and professional services. \$8,062 is recorded in accounts payable at August 31, 2004 (August 31, 2003 - \$24,000).

GGL DIAMOND CORP.

Notes to Consolidated Financial Statements
August 31, 2004

5. Segmented information

The Company is involved in mineral exploration and development activities, which are conducted principally in Canada and the United States. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for each of the nine months ended August 31, 2004 and August 31, 2003.

The Company's total assets are segmented geographically as follows:

	August 31, 2004	August 31, 2003
Canada	\$10,691,470	\$6,337,049
United States	915,912	906,916
	<u>\$11,607,382</u>	<u>\$7,243,965</u>

6. Commitment

Pursuant to an agreement dated March 1, 2001, the Company has agreed to pay its President and Chief Executive Officer up to \$10,000 per month. Payment of the full amount of \$10,000 per month is subject to a number of conditions precedent, none of which have been satisfied as of August 31, 2004. If the conditions precedent had been satisfied at August 31, 2004, the amount owing under the agreement would be \$182,207 in addition to the \$8,062 owing at August 31, 2004 (see Note 4 – Related Party Transactions).

7. Comparative Figures

Certain 2003 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2004.

8. Subsequent Events

Subsequent to August 31, 2004, Mr. R. Timothe Huot resigned as a director of the Company for business reasons unrelated to GGL's operations.

9. Part XII.6 Tax Expense

During the period, the Company incurred a tax expense on the monthly unspent balance of flow-through funds from the December 2003 private placement. This Part XII.6 tax expense was calculated by multiplying the unspent CEE at the end of each month (starting with February 2004) by the prescribed interest rate (divided by 12) set by Canada Customs and Revenue Agency. The prescribed interest rate between February 29 and June 30, 2004 was 5%. All the flow-through funds were spent by June 30, 2004.