

# **GGL DIAMOND CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**AUGUST 31, 2005**

**(UNAUDITED)**

Notice to Reader: The Company's auditors have not reviewed the attached Interim Consolidated Financial Statements for the period ended August 31, 2005.

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**GGL DIAMOND CORP.**Consolidated Balance Sheets As At  
(Unaudited)

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	August 31, 2005	November 30, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,437,379	\$ 882,400
Accounts receivable	201,239	65,648
Prepaid expense	10,604	223
Marketable securities	3,800	3,800
	1,653,022	952,071
<b>Mineral properties and deferred exploration costs (Note 1)</b>	11,565,634	9,679,167
<b>Property, plant and equipment</b>	283,962	286,093
	\$ 13,502,618	\$ 10,917,331
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 557,711	\$ 146,075
Current portion of mortgage loan	14,153	14,153
	571,864	160,228
<b>Mortgage loan</b>	31,529	42,806
	603,393	203,034
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Notes 2, 3)</b>	24,945,811	22,393,539
<b>Contributed surplus</b>	637,238	572,372
<b>Deficit</b>	(12,683,824)	(12,251,614)
	12,899,225	10,714,297
	\$ 13,502,618	\$ 10,917,331

Commitments (Note 6)

Subsequent Event (Note 7)

**Approved by the Board of Directors:***"Raymond A. Hrkac"*

Director

*"Nick DeMare"*

Director

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

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	August 31, 2005	August 31, 2004
	<u>                    </u>	<u>                    </u>
<b>Administration costs</b>		
Amortization	\$ 665	\$ 831
Consulting fees	18,000	18,000
Corporate relations	15,234	10,960
Interest expense	-	199
Legal and audit	13,151	14,358
Licences, taxes, insurance and fees	2,442	1,706
Office services and expenses	34,922	33,695
Shareholders' meetings and reports	4,254	2,823
Stock based compensation	28,839	(37,149)
Travel	9,143	7,733
	<u>                    </u>	<u>                    </u>
<b>Operating loss</b>	(126,650)	(53,156)
	<u>                    </u>	<u>                    </u>
<b>Other income (loss)</b>		
Interest income	7,756	265
Foreign exchange adjustments	(645)	(1,241)
Part XII.6 Tax expense	-	(11,500)
General exploration costs	(18,392)	(29,504)
	<u>                    </u>	<u>                    </u>
	(11,281)	(41,980)
	<u>                    </u>	<u>                    </u>
<b>Net loss for the period</b>	(137,931)	(95,136)
	<u>                    </u>	<u>                    </u>
<b>Deficit, beginning of period</b>	(12,545,893)	(11,696,515)
	<u>                    </u>	<u>                    </u>
<b>Deficit, end of period</b>	\$ (12,683,824)	\$ (11,791,651)
	<u>                    </u>	<u>                    </u>
<b>Net loss per share</b>	\$ 0.002	\$ 0.001
	<u>                    </u>	<u>                    </u>
<b>Weighted average number of common shares outstanding</b>	82,188,425	68,532,033
	<u>                    </u>	<u>                    </u>

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

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	August 31, 2005	August 31, 2004
<b>Administration costs</b>		
Amortization	\$ 1,995	\$ 2,493
Consulting fees	99,750	50,314
Corporate relations	23,403	22,815
Interest expense	-	811
Legal and audit	48,746	27,954
Licences, taxes, insurance and fees	13,792	28,477
Office services and expenses	113,747	104,026
Shareholders' meetings and reports	33,043	23,417
Stock based compensation	64,867	405,333
Travel	32,226	33,429
<b>Operating loss</b>	(431,569)	(699,069)
<b>Other income (loss)</b>		
Interest income	17,378	23,299
Foreign exchange adjustments	(348)	(2,095)
General exploration costs	(99,300)	(94,936)
Part XII.6 Tax expense	(371)	(11,500)
	(82,641)	(85,232)
<b>Net loss before taxes</b>	(514,210)	(784,301)
Future tax recovery	82,000	-
<b>Net loss for the period</b>	(432,210)	(784,301)
<b>Deficit, beginning of period</b>	(12,251,614)	(11,007,350)
<b>Deficit, end of period</b>	\$ (12,683,824)	\$ (11,791,651)
<b>Net loss per share</b>	\$ 0.005	\$ 0.01
<b>Weighted average number of common shares outstanding</b>	82,188,425	68,532,033

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

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	August 31, 2005	August 31, 2004
	<hr/>	<hr/>
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (137,931)	\$ (95,136)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	8,236	8,593
- stock based compensation	28,839	(37,149)
	<hr/>	<hr/>
	(100,856)	(123,692)
Change in non-cash working capital items:		
- accounts receivable	(33,793)	82,641
- prepaid expenses	(8,485)	8,205
- accounts payable and accrued liabilities	248,425	(131,129)
	<hr/>	<hr/>
	105,291	(163,975)
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	300,000	1,113,000
Share issuance cost	(31,462)	-
Principal reduction of mortgage loan	(3,986)	(3,752)
	<hr/>	<hr/>
	264,552	1,109,248
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(21)	(638)
Deferred exploration costs	(1,136,571)	(671,843)
Purchase of capital assets	(13,550)	(2,741)
	<hr/>	<hr/>
	(1,150,142)	(675,222)
<b>(Decrease) increase in cash and cash equivalents</b>	(780,299)	270,051
<b>Cash and cash equivalents, beginning of period</b>	2,217,678	1,487,672
<b>Cash and cash equivalents, end of period</b>	<hr/> <hr/> \$ 1,437,379	<hr/> <hr/> \$ 1,757,723
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 483	\$ 1,041

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

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	August 31, 2005	August 31, 2004
	<u>                    </u>	<u>                    </u>
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (432,210)	\$ (784,301)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	20,996	24,958
- stock based compensation	64,867	405,333
- future tax recovery	(82,000)	-
	<u>(428,347)</u>	<u>(354,010)</u>
Change in non-cash working capital items:		
- accounts receivable	(135,591)	(20,709)
- prepaid expenses	(10,381)	2,307
- accounts payable and accrued liabilities	411,636	186,721
	<u>(162,683)</u>	<u>(185,691)</u>
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	2,530,000	1,494,000
Shares issued for cash – flow-through shares	230,000	1,004,500
Share issuance costs	(125,728)	(14,686)
Principal reduction of mortgage loan	(11,277)	(10,448)
	<u>2,622,995</u>	<u>2,473,366</u>
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(338)	(94,436)
Deferred exploration costs	(1,886,129)	(1,982,589)
Purchase of capital assets	(18,866)	(28,056)
	<u>(1,905,333)</u>	<u>(2,105,081)</u>
<b>Increase in cash and cash equivalents</b>	554,979	182,594
<b>Cash and cash equivalents, beginning of period</b>	882,400	1,575,129
<b>Cash and cash equivalents, end of period</b>	<u>\$ 1,437,379</u>	<u>\$ 1,757,723</u>
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 1,524	\$ 3,487

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements

August 31, 2005

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These notes should be read in conjunction with the Audited Consolidated Financial Statements for the year ended November 30, 2004.

**1. Mineral Properties and Deferred Exploration Costs**

[-----December 1, 2004 to August 31, 2005-----]

	Balance November 30, 2004	property cost additions	exploration cost additions	written off	Balance August 31, 2005
Doyle Lake	\$ 943,269	\$ 338	\$ 920,171	\$ -	\$ 1,863,778
Fishback Lake	743,943	-	259,457	-	1,003,400
CH	5,646,033	-	664,404	-	6,310,437
Happy Creek	917,915	-	7,485	-	925,400
McConnell Creek	1,428,007	-	34,612	-	1,462,619
	<u>\$ 9,679,167</u>	<u>\$ 338</u>	<u>\$ 1,886,129</u>	<u>\$ -</u>	<u>\$ 11,565,634</u>

	Balance November 30, 2004	Dec 1/04 to Additions	Aug.31/05 written off	Balance August 31, 2005
Mineral property costs	\$ 536,421	\$ 338	\$ -	\$ 536,759
Deferred exploration costs	9,142,746	1,886,129	-	11,028,875
	<u>\$ 9,679,167</u>	<u>\$ 1,886,467</u>	<u>\$ -</u>	<u>\$ 11,565,634</u>

Exploration costs incurred during the nine months ended:

	August 31, 2005	August 31, 2004
Charter Aircraft	\$ 388,990	\$ 479,393
Drilling, sampling, excavating	549,807	284,401
Licences and recording fees	108,220	25,662
Project supplies	261,494	110,105
Salaries and wages	114,765	111,315
Survey	76,464	569,072
Technical and professional services	303,529	264,300
Transportation	82,860	138,341
	<u>\$ 1,886,129</u>	<u>\$ 1,982,589</u>

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**GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements

August 31, 2005

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**1. Mineral Properties and Deferred Exploration Costs** (continued)

During the period ended August 31, 2005, the Company acquired 21 mining leases (51,109 acres) in the Northwest Territories from Mountain Province Diamonds Inc. (MPV), Camphor Ventures Inc., and De Beers Canada Inc., subject to Royalty Agreements which total 1.5% of net returns (gross revenues less permissible deductions). The Company has agreed to keep the leases in good standing and submit three yearly lease rental period payments to the NWT Mining Recorders Office. The first lease rental payment of \$51,109 has been made.

During the period, the Company staked one claim as part of the Doyle Lake claims.

**2. Share Capital**

(a) Authorized: unlimited common shares without par value.

(b) Issued:

	Shares	Amount
Balance, November 30, 2004	74,785,242	\$ 22,393,539
Issued pursuant to flow-through share agreements		
Less share issuance costs of \$9,116	1,150,000	220,884
Issued pursuant to private placements		
Less share issuance cost of \$60,012	13,594,444	2,469,988
Less Finders Fee	-	(56,600)
Less flow-through share renunciation	-	(82,000)
Balance, August 31, 2005	89,529,686	\$ 24,945,811

(c) During the period ended August 31, 2005, the Company:

- (i) completed a private placement of 1,150,000 common shares at \$0.20 per share for gross proceeds of \$230,000. All of the proceeds from these flow-through shares have been spent on Canadian Exploration Expenses ("CEE");
- (ii) completed a private placement of 4,150,000 units at \$0.20 per unit for gross proceeds of \$830,000 and paid a cash finders fee of \$32,000. Each unit consists of one common share and one-half of a share purchase warrant. One whole share purchase warrant is exercisable at \$0.25 per common share during the first year and at \$0.30 per share during the second year;
- (iii) completed a private placement of 7,777,778 units at \$0.18 per unit for gross proceeds of \$1,400,000. Each unit consists of one common share and one share purchase warrant. One share purchase warrant is exercisable at \$0.20 per common share during the first year and at \$0.22 per share during the second year and;



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**GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements

August 31, 2005

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**2. Share Capital (continued)**

- (iv) completed a private placement of 1,666,666 units at \$0.18 per unit for gross proceeds of \$300,000 and paid a cash finders fee of \$24,600. Each unit consists of one common share and one share purchase warrant. One share purchase warrant is exercisable at \$0.20 per common share during the first year and at \$0.22 per share during the second year.
- (a) At August 31, 2005, the following share purchase warrants remained unexercised:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,075,000	\$0.25/\$0.30	March 8, 2007
1,000,000	\$0.25/\$0.30	March 15, 2007
7,777,778	\$0.20/\$0.22	April 29, 2007
<u>1,666,666</u>	<u>\$0.20/\$0.22</u>	<u>July 27, 2007</u>
<u>11,519,444</u>		

**3. Stock Options**

During the period, the Company's Board of Directors approved and granted stock options to the directors, consultants and employees of the Company. Each option entitles its holder to acquire one common share of the Company at \$0.20 per common share. These options are vested over eighteen months and are exercisable for five years.

Stock options outstanding as at August 31, 2005:

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	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at November 30, 2004	5,805,000	\$ 0.32
Granted	1,370,000	0.20
Expired	(1,889,000)	0.30
<u>Options outstanding at August 31, 2005</u>	<u>5,286,000</u>	<u>\$ 0.29</u>

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**GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements

August 31, 2005

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**3. Stock Options (continued)**

The weighted average fair value of the options granted during the period ended August 31, 2005 was \$0.16.

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	5,286,000	2.65	\$0.29	4,219,334	\$0.32

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 2004 to an employee had 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 options issued in 2003 to 2004, had the Company recognized compensation expense, the following would have been its effect on the Company's net loss:

	Aug. 31, 2005	Aug. 31, 2004
Net (loss) for the period:		
- as reported	\$(432,210)	\$(784,301)
- pro-forma	\$(432,210)	\$(793,386)
Basic and diluted (loss) per share:		
- as reported	\$(0.005)	\$(0.01)
- pro-forma	\$(0.005)	\$(0.01)

In 2005, the fair value of all options granted to employees, directors and consultants are recognized as stock based compensation cost in the financial statements.

**4. Related Party Transactions**

During the nine months ended August 31, 2005, the Company was billed \$73,238 by two directors (August 31, 2004 - \$72,947 of which \$8,062 is included in accounts payable in 2004) for consulting fees and technical and professional services.

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**GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements

August 31, 2005

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**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, 2005 and August 31, 2004.

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

	August 31, 2005	August 31, 2004
Canada	\$12,577,219	\$10,691,470
United States	925,399	915,912
	<u>\$13,502,618</u>	<u>\$11,607,382</u>

**6. Commitments**

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 has been satisfied as of August 31, 2005. If the conditions precedent had been satisfied at August 31, 2005, the additional amount owing under the agreement would be \$194,670.

The Company signed an one year lease for its head office in Vancouver to February 2006. The balance of the commitment is approximately \$9,078.

The Company signed an agreement for three months with Accent Marketing Ltd. Of Birmingham, England for investor relations services. Accent will receive a monthly retainer of 3,000 Euro and a stock option to purchase 150,000 common shares, subject to regulatory approval.

The Company signed an agreement for one year with Ascenta Capital Partners Inc. in Vancouver for investor relations services. Ascenta will receive a monthly retainer of \$5,000 and a stock option to purchase 200,000 common shares.

**7. Subsequent Event**

Subsequent to August 31, 2005, the Company completed a private placement of 2,044,961 units at \$0.195 per unit for gross proceeds of \$398,767. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.26 per common share for two years. The Company paid a finders fee of \$24,600 on a portion of the proceeds.