

# **GGL DIAMOND CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FEBRUARY 29, 2004**

**(UNAUDITED)**

NOTICE: The Company's auditors have not reviewed the attached Interim Consolidated Financial Statements for the period ended February 29, 2004.

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**GGL DIAMOND CORP.**Consolidated Balance Sheets as at  
(Unaudited)

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	February 29, 2004	November 30, 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,325,708	\$ 1,575,129
Marketable securities	3,800	3,800
Sundry receivable	94,226	59,318
Prepaid expenses	9,188	3,807
	2,432,922	1,642,054
<b>Mineral properties and deferred exploration costs (Note 1)</b>	7,576,749	7,399,202
<b>Property, plant and equipment</b>	297,580	285,006
	\$ 10,307,251	\$ 9,326,262
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 169,565	\$ 211,460
Current portion of mortgage loan	13,124	13,124
	182,689	224,548
<b>Mortgage loan</b>	54,018	57,676
	236,707	282,260
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 2)</b>	21,017,039	19,909,724
<b>Contributed surplus</b>	313,810	141,628
<b>Deficit</b>	(11,260,305)	(11,007,350)
	10,070,544	9,044,002
	\$ 10,307,251	\$ 9,326,262

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**Commitment (Note 6)****Subsequent events (Note 8)****Approved by the Board of Directors**

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*"J. Haig deB. Farris"*

Director

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*"Raymond A. Hrkac"*

Director

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**GGL DIAMOND CORP.**

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

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	February 29, 2004	February 28, 2003
<b>Administration costs</b>		
Amortization	\$ 831	\$ 294
Consulting fees	12,000	12,000
Corporate relations	7,388	15,947
Interest expense	360	232
Legal and audit	2,710	11,853
Licences, taxes, insurance and fees	10,888	9,788
Office services and expenses	32,505	25,071
Shareholders' meetings and reports	1,825	769
Stock based compensation	172,182	-
Travel	6,873	5,839
<b>Operating loss</b>	<b>(247,562)</b>	<b>(81,793)</b>
<b>Other income (loss)</b>		
Interest income	22,250	1,121
General Exploration costs	(27,643)	(19,587)
	<b>(5,393)</b>	<b>(18,466)</b>
<b>Loss for the period</b>	<b>(252,955)</b>	<b>(100,259)</b>
<b>Deficit, beginning of period</b>	<b>(11,007,350)</b>	<b>(10,053,221)</b>
<b>Deficit, end of period</b>	<b>\$ (11,260,305)</b>	<b>\$ (10,153,480)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.004)</b>	<b>\$ (0.002)</b>
<b>Weighted average number of common shares outstanding</b>		
- basic and diluted	65,948,650	54,229,158

Please see the notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

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	February 29, 2004	February 28, 2003
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (252,955)	\$ (100,259)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	7,942	5,587
- stock based compensation	172,182	-
	(72,831)	(94,672)
Change in non-cash working capital items:		
- sundry receivable	(34,908)	56,892
- prepaid expenses	(5,381)	62,977
- accounts payable and accrued liabilities	(41,895)	(258,988)
	(155,015)	(233,791)
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	117,500	1,000,000
Shares issued for cash - flow-through shares	1,004,500	-
Share issuance cost	(14,685)	(156,993)
Principal reduction of mortgage loan	(3,658)	(3,447)
	1,103,657	839,560
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(279)	-
Deferred exploration costs	(177,268)	(83,800)
Purchase of capital assets	(20,516)	-
	(198,063)	(83,800)
<b>Increase in cash and cash equivalents</b>	750,579	521,969
<b>Cash and cash equivalents, beginning of period</b>	1,575,129	179,412
<b>Cash and cash equivalents, end of period</b>	\$ 2,325,708	\$ 701,381
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 1,295	\$ 1,586

Please see the notes accompanying these financial statements.

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
February 29, 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

	Balance November 30, 2003	2004 property cost additions	2004 exploration cost additions	2004 written off	Balance February 29, 2004
Clinton	\$ 18,619	\$ -	\$ 998	\$ -	\$ 19,617
Doyle Lake	718,214	-	8,474	-	726,688
Fishback Lake and Dessert Lake	246,825	279	14,184	-	261,288
CH	4,077,385	-	151,994	-	4,229,379
Regional, NWT	41,944	-	795	-	42,739
Happy Creek	907,030	-	520	-	907,550
McConnell Creek and other	1,389,185	-	303	-	1,389,488
	\$7,399,202	\$ 279	\$ 177,268	\$ -	\$7,576,749

	Balance November 30, 2003	2004 Additions	2004 written off	Balance February 29, 2004
Mineral property costs	\$ 483,597	\$ 279	\$ -	\$ 483,876
Deferred exploration costs	6,915,605	177,268	-	7,092,873
	\$7,399,202	\$ 177,547	\$ -	\$7,576,749

Exploration costs incurred during the three months ended:

	February 29, 2004	February 28, 2003
Chartered Aircraft	\$ 3,809	\$ 797
Drilling, trenching, sampling	65,531	49,916
Licences and recording fees	4,010	435
Project supplies	10,466	1,816
Salaries and wages	25,575	8,171
Surveys	5,300	-
Technical and professional services	55,240	20,519
Transportation	7,337	2,146
	\$ 177,268	\$ 83,800

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
February 29, 2004

## 2. Share Capital

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

(b) Issued:

	# of shares	\$
Balance, November 30, 2003	65,528,020	\$19,909,724
Issued pursuant to flow-through share agreements less share issuance costs of \$14,685	2,232,222	989,815
Exercise of warrants	100,000	20,000
Exercise of stock options	325,000	97,500
Balance, February 29, 2004	68,185,242	\$21,017,039

(c) During the period ended February 29, 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. The proceeds from these flow-through shares must be spent on Canadian Exploration Expenses ("CEE") by December 31, 2004;

(ii) Issued 100,000 common shares pursuant to the exercise of share purchase warrants at \$0.20 per common share for gross proceeds of \$20,000.

(d) At February 29, 2004, the following share purchase warrants remained unexercised:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
520,000	\$0.20	May 31, 2004
450,000	\$0.20	June 24, 2004
<u>5,120,000</u>	\$0.20	July 11, 2004
<u>6,090,000</u>		

Each warrant entitles the holder to acquire one common share of the Company.

## 3. Stock Options

During the period, the Company's Board of Directors approved and granted 1,100,000 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. 213,965 of these options are restricted from being exercised until an amendment to the Company's Stock Option Plan has been approved by the shareholders at its Annual and Special General Meeting to be held on May 14, 2004. The Company Stock Option Plan was amended on January 15, 2004 to increase the maximum number of shares reserved for the granting of stock options under the Plan.

## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
February 29, 2004

### 3. Stock Options (continued)

Stock options outstanding as at February 29, 2004:

	Shares	Weighted Average Exercise Price
Options outstanding at November 30, 2003	6,155,000	\$ 0.27
Granted	1,100,000	\$ 0.50
Exercised	(325,000)	\$ 0.30
Options outstanding at February 29, 2004	6,930,000	\$ 0.26

The weighted average fair value of the option granted during the period ended February 29, 2004 was \$0.56.

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	6,930,000	2.74	\$ 0.30	5,455,556	\$0.27

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:

	February 29, 2004	February 28, 2003
Net (loss) for the period:		
- as reported	\$(252,955)	\$(100,259)
- pro-forma	\$(282,952)	\$(178,712)
Basic and diluted (loss) per share:		
- as reported	\$(0.004)	\$(0.002)
- pro-forma	\$(0.004)	\$(0.003)

In 2004, the fair value of all options granted to employees, directors and consultants are recognized as stock based compensation cost in the financial statements.

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
February 29, 2004

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## 4. Related Party Transactions

During the three months ended February 29, 2004, the Company was billed \$12,000 (\$8,000 of which is included in accounts payable) by one director (February 28, 2003 – \$12,000) for technical and professional services. The fees for 2004 and 2003 are recorded as Consulting fees in the financial statements. See Note 6 – Commitment.

## 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 three months ended February 29, 2004 and February 28, 2003.

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

	February 29, 2004	February 28, 2003
Canada	\$ 9,399,702	\$6,358,778
United States	907,549	901,677
	<u>\$10,307,251</u>	<u>\$7,260,455</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 February 29, 2004. If the conditions precedent had been satisfied at February 29, 2004, the amount owing under the agreement would be \$172,350 in addition to the \$8,000 owing at February 29, 2004 (see Note 4 – Related Party Transactions).

## 7. Comparative Figures

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



# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
February 29, 2004

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## **8. Subsequent Events**

Subsequent to February 29, 2004, the following occurred:

- (a) Issued 515,000 common shares pursuant to the exercise of stock options at \$0.30 per common share for gross proceeds of \$154,500.
- (b) 750,000 stock options expired unexercised.
- (c) Issued 270,000 common shares pursuant to the exercise of share purchase warrants at \$0.20 per common share for gross proceeds of \$54,000.
- (d) Granted 330,000 stock options to a director of the Company at \$0.50 per common share to expire March 19, 2009. These options are vested over the period March 19, 2004 to June 19, 2005.