

# **GGL DIAMOND CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 31, 2004**

**(UNAUDITED)**

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

---

## GGL DIAMOND CORP.

Consolidated Balance Sheets As At  
(Unaudited)

	May 31, 2004	November 30, 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,487,672	\$ 1,575,129
Sundry receivable	162,668	59,318
Prepaid expense	9,705	3,807
Marketable securities	3,800	3,800
	1,663,845	1,642,054
<b>Mineral properties and deferred exploration costs (Note 1)</b>	8,803,746	7,399,202
<b>Property, plant and equipment</b>	293,957	285,006
	\$ 10,761,548	\$ 9,326,262
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 529,310	\$ 211,460
Current portion of mortgage loan	13,124	13,124
	542,434	224,584
<b>Mortgage loan</b>	50,980	57,676
	593,414	282,260
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Notes 2, 3)</b>	21,280,539	19,909,724
<b>Contributed surplus</b>	584,110	141,628
<b>Deficit</b>	(11,696,515)	(11,007,350)
	10,168,134	9,044,002
	\$ 10,761,548	\$ 9,326,262

**Approved by the Board of Directors:**

Director "Raymond A. Hrkac"

Director "J. Haig deB Farris"

Please see notes accompanying these financial statements.

---

**GGL DIAMOND CORP.**

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

	May 31, 2004	May 31, 2003
<b>Administration costs</b>		
Amortization	\$ 831	\$ 696
Consulting fees	20,314	12,836
Corporate relations	4,467	17,638
Interest expense	253	211
Legal and audit	10,885	14,608
Licences, taxes, insurance and fees	15,884	8,577
Office services and expenses	37,366	20,939
Shareholders' meetings and reports	18,768	18,020
Stock based compensation	270,300	-
Travel	18,823	1,459
<b>Operating loss</b>	<b>(397,891)</b>	<b>(94,984)</b>
<b>Other income (loss)</b>		
Interest income	784	3,975
Foreign exchange adjustments	(1,314)	(2,305)
General exploration costs	(37,789)	(13,948)
	(38,319)	(12,278)
<b>Loss for the period</b>	<b>(436,210)</b>	<b>(107,262)</b>
<b>Deficit, beginning of period</b>	<b>(11,260,305)</b>	<b>(10,153,480)</b>
<b>Deficit, end of period</b>	<b>\$ (11,696,515)</b>	<b>\$ (10,260,742)</b>
<b>Net loss per share</b>	<b>\$ (0.007)</b>	<b>\$ (0.002)</b>
<b>Weighted average number of common shares outstanding</b>	<b>66,810,854</b>	<b>56,362,859</b>

Please see notes accompanying these financial statements.

---

**GGL DIAMOND CORP.**

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

	May 31, 2004	May 31, 2003
<b>Administration costs</b>		
Amortization	\$ 1,162	\$ 990
Consulting fees	32,314	24,835
Corporate relations	11,855	42,686
Interest expense	612	443
Legal and audit	13,596	26,461
Licences, taxes, insurance and fees	26,772	18,364
Office services and expenses	70,331	36,685
Shareholders' meetings and reports	20,593	18,789
Stock based compensation	442,482	-
Travel	25,696	7,299
<b>Operating loss</b>	(645,913)	(176,552)
<b>Other income (loss)</b>		
Interest income	23,034	5,096
Foreign exchange adjustments	(854)	(2,529)
General exploration costs	(65,432)	(33,536)
	(43,252)	(30,969)
<b>Loss for the period</b>	(689,165)	(207,521)
<b>Deficit, beginning of period</b>	(11,007,350)	(10,053,221)
<b>Deficit, end of period</b>	\$ (11,696,515)	\$ (10,260,742)
<b>Net loss per share</b>	\$ (0.011)	\$ (0.004)
<b>Weighted average number of common shares outstanding</b>	66,810,854	56,362,859

Please see notes accompanying these financial statements.

---

**GGL DIAMOND CORP.**

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

	May 31, 2004	May 31, 2003
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (436,210)	\$ (107,262)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	8,422	6,200
- stock based compensation	270,300	-
	(157,488)	(101,062)
Change in non-cash working capital items:		
- sundry receivable	(68,442)	(101,400)
- prepaid expenses	(517)	24,950
- accounts payable and accrued liabilities	359,745	202,594
	133,298	25,082
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	263,500	236,500
Share issuance cost		(210)
Principal reduction of mortgage loan	(3,039)	(3,016)
	260,461	233,274
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(93,518)	(12,574)
Deferred exploration costs	(1,133,478)	(419,394)
Purchase of capital assets	(4,799)	(6,131)
	(1,231,795)	(438,099)
<b>Decrease in cash and cash equivalents</b>	(838,036)	(179,743)
<b>Cash and cash equivalents, beginning of period</b>	2,325,708	701,381
<b>Cash and cash equivalents, end of period</b>	\$ 1,487,672	\$ 521,638
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 1,151	\$ 1,132

Please see notes accompanying these financial statements.

---

**GGL DIAMOND CORP.**

## Consolidated Statement of Cash Flows

For the six months ended

(Unaudited)

	May 31, 2004	May 31, 2003
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (689,165)	\$ (207,521)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	16,365	11,787
- stock based compensation	442,482	-
	(230,318)	(195,734)
Change in non-cash working capital items:		
- sundry receivable	(103,350)	(44,508)
- prepaid expenses	(5,898)	87,927
- accounts payable and accrued liabilities	317,850	(56,394)
	(21,716)	(208,709)
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	381,000	1,236,500
Shares issued for cash – flow-through shares	1,004,500	-
Share issuance cost	(14,686)	(157,203)
Principal reduction of mortgage loan	(6,696)	(6,463)
	1,364,118	1,072,834
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(93,798)	(12,574)
Deferred exploration costs	(1,310,746)	(503,194)
Purchase of capital assets	(25,315)	(6,131)
	(1,429,859)	(521,899)
<b>(Decrease) increase in cash and cash equivalents</b>	(87,457)	342,226
<b>Cash and cash equivalents, beginning of period</b>	1,575,129	179,412
<b>Cash and cash equivalents, end of period</b>	\$ 1,487,672	\$ 521,638
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 2,446	\$ 2,718

Please see notes accompanying these financial statements.

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 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 May 31, 2004-----]

	Balance November 30, 2003	property cost additions	exploration cost additions	written off	Balance May 31, 2004
Doyle Lake	\$ 718,214	\$ -	\$ 15,882	\$ -	\$ 734,096
Clinton	18,619	-	1,743	-	20,362
Fishback Lake and Dessert Lake	246,825	62,514	108,676	-	418,015
CH	4,077,385	-	1,180,260	-	5,257,645
Regional, NWT	41,944	-	815	-	42,759
Happy Creek	907,030	-	1,504	-	908,534
McConnell Creek and other	1,389,185	31,284	1,866	-	1,422,335
	\$ 7,399,202	\$ 93,798	\$ 1,310,746	\$ -	\$ 8,803,746

	Balance November 30, 2003	Dec 1/03 to Additions	May 31/04 written off	Balance May 31, 2004
Mineral property costs	\$ 483,597	\$ 93,798	\$ -	\$ 577,395
Deferred exploration costs	6,915,605	1,310,746	-	8,226,351
	\$ 7,399,202	\$ 1,404,544	\$ -	\$ 8,803,746

Exploration costs incurred during the six months ended:

	May 31, 2004	May 31, 2003
Charter Aircraft	\$ 309,188	\$ 55,253
Drilling, trenching, sampling	164,433	213,648
Licences and recording fees	1,463	5,486
Project supplies	64,901	45,725
Salaries and wages	59,266	33,963
Survey	466,520	28,532
Technical and professional services	149,048	77,405
Transportation	95,927	43,182
	\$ 1,310,746	\$ 503,194

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  
May 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 \$14,685	2,232,222	989,815
Exercise of warrants	570,000	114,000
Exercise of stock options	915,000	267,000
Balance, May 31, 2004	69,245,242	\$21,280,539

- (c) During the period ended May 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 570,000 common shares pursuant to the exercise of share purchase warrants at \$0.20 per common share for gross proceeds of \$114,000
- (d) At May 31, 2004, the following share purchase warrants remained unexercised:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
400,000	0.20	June 24, 2004
<u>5,200,000</u>	0.20	July 11, 2004
<u>5,600,000</u>		

### 3. Stock Options

During the period, the Company's Board of Directors approved and granted 1,430,000 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.



## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 31, 2004

### 3. Stock Options (continued)

Stock options outstanding as at May 31, 2004:

	Shares	Weighted Average Exercise Price
Options outstanding at November 30, 2003	6,155,000	\$ 0.27
Granted	1,430,000	\$ 0.50
Exercised	(915,000)	\$ 0.29
Expired	(750,000)	\$ 0.32
Options outstanding at May 31, 2004	5,920,000	\$ 0.26

The weighted average fair value of the options granted during the period ended May 31, 2004 was \$0.52.

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	5,920,000	3.20	\$ 0.32	4,428,889	\$0.28

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:

	May 31, 2004	May 31, 2003
Net (loss) for the period:		
- as reported	\$(689,165)	\$(252,955)
- pro-forma	\$(698,250)	\$(282,952)
Basic and diluted (loss) per share:		
- as reported	\$(0.011)	\$(0.004)
- pro-forma	\$(0.011)	\$(0.004)

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  
May 31, 2004

## 4. Related Party Transactions

During the six months ended May 31, 2004, the Company was billed \$41,180 by a director who is the President and CEO (May 31, 2003– \$24,000) for consulting fees and technical and professional services. \$13,656 is recorded in accounts payable at May 31, 2004 (May 31, 2003 - \$24,000).

## 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 six months ended May 31, 2004 and May 31, 2003.

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

	May 31, 2004	May 31, 2003
Canada	\$9,853,014	\$6,687,261
United States	908,534	901,800
	<u>\$10,761,548</u>	<u>\$7,589,061</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 May 31, 2004. If the conditions precedent had been satisfied at May 31, 2004, the amount owing under the agreement would be \$173,170 in addition to the \$7,656 owing at May 31, 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.

## 8. Subsequent Events

Subsequent to May 31, 2004:

- i) the Company issued 5,440,000 common shares pursuant to warrants exercised for gross proceeds of \$1,088,000
- ii) granted a total of 45,000 stock options to an employee and a consultant at \$0.50 per common share exercisable for five years and
- iii) issued 100,000 common shares pursuant to the exercise of stock options at \$0.25 per share for gross proceeds of \$25,000.