



**GGL** DIAMOND CORP.

# CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006

(UNAUDITED)

Notice to Reader: The Company's auditors have not reviewed the attached Interim Consolidated Financial Statements for the period ended August 31, 2006.

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## GGL DIAMOND CORP.

Consolidated Balance Sheets As At  
(Unaudited)

	August 31, 2006	November 30, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 506,267	\$ 592,662
Marketable securities	-	3,800
Accounts receivable	71,172	127,626
Prepaid expense	4,000	2,831
	581,439	726,919
<b>Mineral properties and deferred exploration costs (Note 1)</b>	13,568,918	12,050,879
<b>Property, plant and equipment</b>	282,434	286,211
	\$ 14,432,791	\$ 13,064,009
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 985,293	\$ 110,685
Current portion of mortgage loan	14,153	14,153
	999,446	124,838
<b>Mortgage loan</b>	16,746	28,109
	1,016,192	152,947
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Notes 2, 3)</b>	26,885,937	25,308,996
<b>Contributed surplus</b>	1,153,111	823,329
<b>Deficit</b>	(14,622,449)	(13,221,263)
	13,416,599	12,911,062
	\$ 14,432,791	\$ 13,064,009

Commitments (Note 6)

Subsequent Events (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)

	August 31, 2006	August 31, 2005
<b>Administration costs</b>		
Amortization	\$ 974	\$ 665
Consulting fees	12,338	18,000
Corporate relations	27,367	15,234
Interest expense	507	-
Legal and audit	2,093	13,151
Licences, taxes, insurance and fees	2,382	2,442
Office services and expenses	33,097	34,922
Shareholders' meetings and reports	11,945	4,254
Stock based compensation	27,991	28,839
Travel	410	9,143
	<hr/>	<hr/>
<b>Operating loss</b>	(119,104)	(126,650)
	<hr/>	<hr/>
<b>Other income (loss)</b>		
Interest income	5,538	7,756
Foreign exchange adjustments	(176)	(645)
Gain on sale of marketable securities	5,906	-
General exploration costs	(27,461)	(18,392)
Write off of mineral property and deferred exploration costs	(927,206)	-
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	(943,399)	(11,281)
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<b>Net loss before taxes</b>	(1,062,503)	(137,931)
Future tax recovery	315,760	-
	<hr/>	<hr/>
<b>Net loss for the period</b>	(746,743)	(137,931)
<b>Deficit, beginning of period</b>	(13,875,706)	(12,545,893)
	<hr/>	<hr/>
<b>Deficit, end of period</b>	\$ (14,622,449)	\$ (12,683,824)
	<hr/>	<hr/>
<b>Net loss per share</b>	\$ (0.008)	\$ (0.002)
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<b>Weighted average number of common shares outstanding</b>	94,898,595	82,188,425

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)

	August 31, 2006	August 31, 2005
<b>Administration costs</b>		
Amortization	\$ 2,610	\$ 1,995
Consulting fees	57,432	99,750
Corporate relations	108,539	23,403
Interest expense	1,520	-
Legal and audit	40,859	48,746
Licences, taxes, insurance and fees	15,519	13,792
Office services and expenses	109,508	113,747
Shareholders' meetings and reports	45,246	33,043
Stock based compensation	329,782	64,867
Travel	63,105	32,226
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<b>Operating loss</b>	(774,120)	(431,569)
	<hr/>	<hr/>
<b>Other income (loss)</b>		
Interest income	19,547	17,378
Foreign exchange adjustments	(1,794)	(348)
Gain on sale of equipment	92	-
Gain on sale of marketable securities	5,906	-
General exploration costs	(128,554)	(99,300)
Write off of mineral property and deferred exploration costs	(927,206)	-
Other Tax expense	(53)	(371)
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	(1,032,062)	(82,641)
	<hr/>	<hr/>
<b>Net loss before taxes</b>	(1,806,182)	(514,210)
Future tax recovery	404,996	82,000
	<hr/>	<hr/>
<b>Net loss for the period</b>	(1,401,186)	(432,210)
<b>Deficit, beginning of period</b>	(13,221,263)	(12,251,614)
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<b>Deficit, end of period</b>	\$ (14,622,449)	\$ (12,683,824)
	<hr/>	<hr/>
<b>Net loss per share</b>	\$ (0.015)	\$ (0.005)
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<b>Weighted average number of common shares outstanding</b>	94,898,595	82,188,425
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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)

	August 31, 2006	August 31, 2005
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<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (746,743)	\$ (137,931)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	9,787	8,236
- stock based compensation	27,991	28,839
- gain on sale of marketable securities	(5,906)	-
- write off of mineral property and deferred exploration costs	927,206	-
- future tax recovery	(315,760)	-
	<hr/>	<hr/>
	(103,425)	(100,856)
Change in non-cash working capital items:		
- accounts receivable	149,099	(33,793)
- prepaid expenses	459	(8,485)
- accounts payable and accrued liabilities	522,617	248,425
	<hr/>	<hr/>
	568,750	105,291
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	10,904	300,000
Shares issued for cash – flow through shares	903,096	-
Share issuance cost	(58,235)	(31,462)
Principal reduction of mortgage loan	(3,982)	(3,986)
	<hr/>	<hr/>
	851,783	264,552
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	-	(21)
Deferred exploration costs	(1,217,091)	(1,136,571)
Proceeds from sale of marketable securities	9,706	-
Purchase of equipment	(16,832)	(13,550)
	<hr/>	<hr/>
	(1,224,217)	(1,150,142)
<b>Increase (decrease) in cash and cash equivalents</b>	196,316	(780,299)
<b>Cash and cash equivalents, beginning of period</b>	309,951	2,217,678
<b>Cash and cash equivalents, end of period</b>	<hr/> <hr/> \$ 506,267	<hr/> <hr/> \$ 1,437,379
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 1,915	\$ 483

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)

	August 31, 2006	August 31, 2005
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<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (1,401,186)	\$ (432,210)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	22,991	20,996
- stock based compensation	329,782	64,867
- gain on sale of marketable securities	(5,906)	-
- gain on sale of equipment	(92)	-
- write off of mineral property and deferred exploration costs	927,206	-
- future tax recovery	(404,996)	(82,000)
	<hr/>	<hr/>
	(532,201)	(428,347)
Change in non-cash working capital items:		
- accounts receivable	56,454	(135,591)
- prepaid expenses	(1,169)	(10,381)
- accounts payable and accrued liabilities	874,608	411,636
	<hr/>	<hr/>
	397,692	(162,683)
	<hr/>	<hr/>
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	956,029	2,530,000
Shares issued for cash – flow-through shares	1,158,056	230,000
Share issuance costs	(132,148)	(125,728)
Principal reduction of mortgage loan	(11,363)	(11,277)
	<hr/>	<hr/>
	1,970,574	2,622,995
	<hr/>	<hr/>
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	-	(338)
Deferred exploration costs	(2,445,245)	(1,886,129)
Proceeds from sale of marketable securities	9,706	-
Proceeds from sale of equipment	100	-
Purchase of equipment	(19,222)	(18,866)
	<hr/>	<hr/>
	(2,454,661)	(1,905,333)
	<hr/>	<hr/>
<b>(Decrease) increase in cash and cash equivalents</b>	(86,395)	554,979
<b>Cash and cash equivalents, beginning of period</b>	592,662	882,400
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<b>Cash and cash equivalents, end of period</b>	\$ 506,267	\$ 1,437,379
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<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 2,928	\$ 1,524
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Please see notes accompanying these financial statements.

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
August 31, 2006

These notes should be read in conjunction with the Audited Consolidated Financial Statements for the year ended November 30, 2005.

## 1. Mineral Properties and Deferred Exploration Costs

[-----December 1, 2005 to August 31, 2006-----]

	Balance November 30, 2005	2006 property cost additions	2006 exploration cost additions	2006 written off	Balance August 31, 2006
Doyle Lake	\$ 2,115,914	\$ -	\$ 1,523,869	\$ -	\$ 3,639,783
Fishback Lake	1,016,316	-	263,502	-	1,279,818
CH	6,512,329	-	628,170	-	7,140,499
Happy Creek	926,920	-	286	(927,206)	-
McConnell Creek	1,479,400	-	29,418	-	1,508,818
	\$12,050,879	\$ -	\$2,445,245	\$(927,206)	\$13,568,918

	Balance November 30, 2005	2006 Additions	2006 written off	Balance August 31, 2006
Mineral property costs	\$ 536,334	\$ -	\$(156,915)	\$ 379,419
Deferred exploration costs	11,514,545	2,445,245	(770,291)	13,189,499
	\$ 12,050,879	\$2,445,245	\$(927,206)	\$13,568,918

Exploration costs incurred during the nine months ended:

	August 31, 2006	August 31, 2005
Charter Aircraft	\$ 516,685	\$ 388,990
Drilling, sampling, excavating	689,033	549,807
Licences, recording fees, lease payments	115,963	108,220
Project supplies	162,066	261,494
Salaries and wages	162,258	114,765
Survey	390,002	76,464
Technical and professional services	291,100	303,529
Transportation	118,138	82,860
	\$ 2,445,245	\$ 1,886,129

The Company terminated its option on the Happy Creek claims in Nevada, USA. All related costs have been written off.

## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
August 31, 2006

### 2. Share Capital

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

	Number of Shares	Amount
Balance, November 30, 2005	91,574,647	\$24,713,996
Private placement - flow-through share agreements – Dec. 2005	910,571	254,960
Private placement – flow-through share agreements – June 2006	3,616,000	903,096
Private placement	3,160,227	556,642
Share issuance costs	-	(132,148)
Exercise of stock options	677,500	155,500
Exercise of warrants - proceeds	417,500	104,375
Re-allocation from share purchase warrants relating to the exercise of share purchase warrants	-	18,312
Flow-through share renunciation	-	(404,996)
Balance, August 31, 2006	100,356,445	\$26,169,737
	<b>Number of Warrants</b>	<b>Amount</b>
Balance, November 30, 2005	13,564,405	\$ 595,000
Private placement – Dec. 2005	3,160,227	138,608
Private placement – June 2006	1,808,000	904
Brokers' warrants	144,000	-
Exercise of warrants	(417,500)	(18,312)
Balance, August 31, 2006	18,259,132	\$ 716,200
<b>Share Capital</b>		<b>\$26,885,937</b>

- (c) During the period ended August 31, 2006, the Company:
- (i) completed a private placement of 910,571 flow through shares at \$0.28 per share for gross proceeds of \$254,960. The proceeds from these flow through shares were spent on Canadian Exploration Expenses on the Company's Northwest Territories properties. In addition the Company issued 3,160,227 units at \$0.22 per unit for gross proceeds of \$695,250. Each unit consists of one common share and one share purchase warrant. One share purchase warrant is exercisable for one year at \$0.30 per common share. The Company paid a cash finders fee of \$40,000 on a portion of the proceeds.;



## **GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements  
August 31, 2006

### **2. Share Capital, continued**

- (ii) the Company completed a flow - through private placement of 3,616,000 units at \$0.25 per unit for gross proceeds of \$904,000. The proceeds from these flow through shares are being spent on Canadian Exploration Expenses on the Company's Northwest Territories properties. Each unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant is exercisable at \$0.35 per common share during the first year and at \$0.45 per common share during the second year. The Company paid a total of \$37,900 in cash and issued 144,000 warrants to agents as finders fees. All of the proceeds have been spent subsequent to August 31, 2006.
- (iii) issued 677,500 common shares upon the exercise of stock options at \$0.20 and \$0.30 per common share, for gross proceeds of \$155,500;
- (iv) granted 1,875,000 stock options to employees for a period of five years. These options are priced at \$0.20 and \$0.26 per common share and will expire between December 7, 2010 and August 15, 2011.;
- (v) repriced 500,000 stock options that were granted to employees and consultants (excluding insiders) to \$0.26 per common share from an exercise price of \$0.45 and \$0.50. These options have expiry dates of August 29, 2006 to June 29, 2009. All of the August 29, 2006 options expired unexercised.;
- (vi) issued 417,500 common shares upon the exercise of warrants at \$0.25 per common share for gross proceeds of \$104,375; and
- (vii) the Company amended and restated its Shareholders Rights Plan Agreement which has been accepted by the TSX Venture Exchange and the Shareholders at the Company's Annual General and Special Meeting held on May 12, 2006.

## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
August 31, 2006

### 2. Share Capital, continued

- (d) At August 31, 2006, the following share purchase warrants remained unexercised:

<u>Number of warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
3,160,227	\$0.30*	Dec. 23, 2006
1,075,000	\$0.30*	March 7, 2007
582,500	\$0.30*	March 14, 2007
7,777,778	\$0.22	April 29, 2007
1,666,666	\$0.20/\$0.22	July 27, 2007
2,044,961	\$0.26	Sept. 28, 2007
130,000	\$0.25	Dec. 12, 2007
14,000	\$0.25	Dec. 27, 2007
1,610,000	\$0.35/\$0.45	June 12, 2008
198,000	\$0.35/\$0.45	June 27, 2008
<b>18,259,132</b>		

\* Subsequent to quarter end, the exercise price of these warrants was amended. See Note 7.

### 3. Stock Options

The Company has amended its Stock Option Plan to a 10% rolling plan whereby the Company may grant stock options to purchase up to 10% of the issued share capital of the Company at the time of the grant of any option. Under the policies of the TSX Venture Exchange, options granted under the 10% rolling plan will not be required to include the mandatory vesting provisions required by the Exchange for fixed number stock option plans, except for stock options granted to investor relations consultants. Under the 10% rolling plan, the number of shares available for grant increases as the issued capital of the Company increases. This amendment was approved by the Shareholders at the Company's Annual General and Special Meeting held on May 12, 2006.

## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
August 31, 2006

### 3. Stock Options, continued

Stock options outstanding as at August 31, 2006:

	Shares	Weighted Average Exercise Price
Options outstanding at November 30, 2005	5,366,000	\$0.29
Expired	(1,017,500)	\$0.27
Granted	1,875,000	\$0.22
Exercised	(677,500)	\$0.23
Options outstanding at August 31, 2006	<b>5,546,000</b>	\$0.26

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	5,546,000	3.21	\$0.26	5,446,000	\$0.26

### 4. Related Party Transactions

During the nine months ended August 31, 2006, the Company was billed \$78,000, of which \$13,000 is included in accounts payable, by a director (August 31, 2005 - \$73,238 by two directors, nil in accounts payable) for consulting fees and technical and professional services.

### 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, 2006 and August 31, 2005.

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

	August 31, 2006	August 31, 2005
Canada	\$14,432,791	\$12,577,219
United States	-	925,399
	<b>\$14,432,791</b>	<b>\$13,502,618</b>

# **GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements  
August 31, 2006

## **6. Commitments**

The Company signed a three-year lease for its head office, including some additional space, in Vancouver until June 30, 2009. The commitment is approximately \$49,000; \$62,000; \$62,500; and \$26,400 in each of the years 2006, 2007, 2008 and 2009, respectively.

## **7. Subsequent Events**

Subsequent to August 31, 2006:

- i) 10,000 stock options expired unexercised;
- ii) the Company issued 210,000 common shares pursuant to the exercise of stock options for gross proceeds of \$39,900;
- iii) the Company repriced the exercise price of the warrants expiring December 23, 2006 from \$0.30 per common share to \$0.19 per common share; and
- iv) the Company repriced the exercise price of the warrants expiring March 7 and 14, 2007 from \$0.30 per common share to \$0.175 per common share.