

# **GGL DIAMOND CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**MAY 31, 2005**

**(UNAUDITED)**

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

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## GGL DIAMOND CORP.

Consolidated Balance Sheets As At  
(Unaudited)

	May 31, 2005	November 30, 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,217,678	\$ 882,400
Sundry receivable	167,446	65,648
Prepaid expense	2,119	223
Marketable securities	3,800	3,800
	2,391,043	952,071
<b>Mineral properties and deferred exploration costs (Note 1)</b>	10,429,041	9,679,167
<b>Property, plant and equipment</b>	278,649	286,093
	\$ 13,098,733	\$ 10,917,331
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 309,286	\$ 146,075
Current portion of mortgage loan	14,153	14,153
	323,439	160,228
<b>Mortgage loan</b>	35,515	42,806
	358,954	203,034
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Notes 2, 3)</b>	24,677,273	22,393,539
<b>Contributed surplus</b>	608,399	572,372
<b>Deficit</b>	(12,545,893)	(12,251,614)
	12,739,779	10,714,297
	\$ 13,098,733	\$ 10,917,331

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)

	May 31, 2005	May 31, 2004
<b>Administration costs</b>		
Amortization	\$ 665	\$ 831
Consulting fees	23,050	20,314
Corporate relations	4,173	4,467
Interest expense	-	253
Legal and audit	20,983	10,885
Licences, taxes, insurance and fees	6,130	15,884
Office services and expenses	32,080	37,366
Shareholders' meetings and reports	22,901	18,768
Stock based compensation	12,642	270,300
Travel	13,285	18,823
<b>Operating loss</b>	(135,909)	(397,891)
<b>Other income (loss)</b>		
Interest income	6,415	784
Foreign exchange adjustments	274	(1,314)
Part XII.6 Tax expense	(18)	-
General exploration costs	(43,988)	(37,789)
	(37,317)	(38,319)
<b>Loss for the period</b>	(173,226)	(436,210)
<b>Deficit, beginning of period</b>	(12,372,667)	(11,260,305)
<b>Deficit, end of period</b>	\$ (12,545,893)	\$ (11,696,515)
<b>Net loss per share</b>	\$ (0.002)	\$ (0.007)
<b>Weighted average number of common shares outstanding</b>	78,990,279	66,810,854

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

	May 31, 2005	May 31, 2004
<b>Administration costs</b>		
Amortization	\$ 1,330	\$ 1,662
Consulting fees	81,750	32,314
Corporate relations	8,168	11,855
Interest expense	-	612
Legal and audit	35,596	13,596
Licences, taxes, insurance and fees	11,350	26,772
Office services and expenses	78,825	70,331
Shareholders' meetings and reports	28,789	20,593
Stock based compensation	36,027	442,482
Travel	23,083	25,696
<b>Operating loss</b>	<b>(304,918)</b>	<b>(645,913)</b>
<b>Other income (loss)</b>		
Interest income	9,621	23,034
Foreign exchange adjustments	274	(854)
General exploration costs	(80,908)	(65,432)
Part XII.6 Tax expense	(348)	-
	(71,361)	(43,252)
<b>Net loss before taxes</b>	<b>(376,279)</b>	<b>(689,165)</b>
Future tax recovery	82,000	-
<b>Net loss for the period</b>	<b>(294,279)</b>	<b>(689,165)</b>
<b>Deficit, beginning of period</b>	<b>(12,251,614)</b>	<b>(11,007,350)</b>
<b>Deficit, end of period</b>	<b>\$ (12,545,893)</b>	<b>\$ (11,696,515)</b>
<b>Net loss per share</b>	<b>\$ (0.004)</b>	<b>\$ (0.011)</b>
<b>Weighted average number of common shares outstanding</b>	<b>78,990,279</b>	<b>66,810,854</b>

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)

	May 31, 2005	May 31, 2004
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (173,226)	\$ (436,210)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	6,577	8,422
- stock based compensation	12,642	270,300
	(154,007)	(157,488)
Change in non-cash working capital items:		
- sundry receivable	(108,786)	(68,442)
- prepaid expenses	(1,403)	(517)
- accounts payable and accrued liabilities	159,718	359,745
	(104,478)	133,298
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	2,230,000	263,500
Share issuance cost	(85,150)	-
Principal reduction of mortgage loan	(3,386)	(3,039)
	2,141,464	260,461
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(316)	(93,518)
Deferred exploration costs	(487,861)	(1,133,478)
Purchase of capital assets	(3,918)	(4,799)
	(492,095)	(1,231,795)
<b>Increase (decrease) in cash and cash equivalents</b>	1,544,891	(838,036)
<b>Cash and cash equivalents, beginning of period</b>	672,787	2,325,708
<b>Cash and cash equivalents, end of period</b>	\$ 2,217,678	\$ 1,487,672
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 446	\$ 1,151

Please see notes accompanying these financial statements.

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**GGL DIAMOND CORP.**

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

	May 31, 2005	May 31, 2004
<b>Cash flows from (used in) operating activities</b>		
Loss for the period	\$ (294,279)	\$ (689,165)
Adjustment for items not involving cash:		
- amortization of property, plant and equipment	12,760	16,365
- stock based compensation	36,027	442,482
- future tax recovery	(82,000)	-
	(327,492)	(230,318)
Change in non-cash working capital items:		
- sundry receivable	(101,798)	(103,350)
- prepaid expenses	(1,896)	(5,898)
- accounts payable and accrued liabilities	163,211	317,850
	(267,975)	(21,716)
<b>Cash flows from (used in) financing activities</b>		
Shares issued for cash	2,230,000	381,000
Shares issued for cash – flow-through shares	230,000	1,004,500
Share issuance costs	(94,266)	(14,686)
Principal reduction of mortgage loan	(7,291)	(6,696)
	2,358,443	1,364,118
<b>Cash flows from (used in) investing activities</b>		
Mineral property costs	(316)	(93,798)
Deferred exploration costs	(749,558)	(1,310,746)
Purchase of capital assets	(5,316)	(25,315)
	(755,190)	(1,429,859)
<b>Increase (decrease) in cash and cash equivalents</b>	1,335,278	(87,457)
<b>Cash and cash equivalents, beginning of period</b>	882,400	1,575,129
<b>Cash and cash equivalents, end of period</b>	\$ 2,217,678	\$ 1,487,672
<b>Supplementary cash flow information</b>		
Cash paid for interest charges	\$ 1,041	\$ 2,446

Please see notes accompanying these financial statements.

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 31, 2005

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 May 31, 2005-----]

	Balance November 30, 2004	property cost additions	exploration cost additions	written off	Balance May 31, 2005
Doyle Lake	\$ 943,269	\$ 316	\$ 135,184	\$ -	\$ 1,078,769
Fishback Lake	743,943	-	224,818	-	968,761
CH	5,646,033	-	380,658	-	6,026,691
Happy Creek	917,915	-	1,393	-	919,308
McConnell Creek	1,428,007	-	7,505	-	1,435,512
	<u>\$ 9,679,167</u>	<u>\$ 316</u>	<u>\$ 749,558</u>	<u>\$ -</u>	<u>\$ 10,429,041</u>

	Balance November 30, 2004	Dec 1/04 to Additions	May31/05 written off	Balance May 31, 2005
Mineral property costs	\$ 536,421	\$ 316	\$ -	\$ 536,737
Deferred exploration costs	9,142,746	749,558	-	9,892,304
	<u>\$ 9,679,167</u>	<u>\$ 749,874</u>	<u>\$ -</u>	<u>\$ 10,429,041</u>

Exploration costs incurred during the six months ended:

	May 31, 2005	May 31, 2004
Charter Aircraft	\$ 130,668	\$ 309,188
Drilling, trenching, sampling	167,743	164,433
Licences and recording fees	38,303	1,463
Project supplies	99,072	64,901
Salaries and wages	34,937	59,266
Survey	76,465	466,520
Technical and professional services	161,018	149,048
Transportation	41,352	95,927
	<u>\$ 749,558</u>	<u>\$ 1,310,746</u>

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 31, 2005

## New Property Acquisition, Doyle Project Area

Subsequent to May 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%. 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 now been made.

## 2. Share Capital

(a) Authorized: 250,000,000 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	11,927,778	2,144,850
Less share issuance cost of \$85,150		
Less flow-through share renunciation	-	(82,000)
Balance, May 31, 2005	87,863,020	\$ 24,677,273

(c) During the period ended May 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. 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.

## GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 31, 2005

(d) At May 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
<u>7,777,778</u>	<u>\$0.20/\$0.22</u>	<u>April 29, 2007</u>
<u>9,852,778</u>		

### 3. Stock Options

During the period, the Company's Board of Directors approved and granted 650,000 stock options to the directors 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 May 31, 2005:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at November 30, 2004	5,805,000	\$ 0.32
Granted	650,000	\$ 0.20
Expired	(80,000)	\$ 0.42
<u>Options outstanding at May 31, 2005</u>	<u>6,375,000</u>	<u>\$ 0.30</u>

The weighted average fair value of the options granted during the period ended May 31, 2004 was \$0.175.

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (yr)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
<u>\$0.20 - \$0.50</u>	<u>6,375,000</u>	<u>1.860</u>	<u>\$ 0.30</u>	<u>5,833,333</u>	<u>\$0.31</u>

# GGL DIAMOND CORP.

Notes to Consolidated Financial Statements  
May 31, 2005

## 3. Stock Options (continued)

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:

	May 31, 2005	May 31, 2004
Net (loss) for the period:		
- as reported	\$(294,279)	\$(689,165)
- pro-forma	\$(294,279)	\$(698,250)
Basic and diluted (loss) per share:		
- as reported	\$(0.004)	\$(0.011)
- pro-forma	\$(0.004)	\$(0.011)

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 six months ended May 31, 2005, the Company was billed \$46,612 by two directors (May 31, 2004 - \$41,180) for consulting fees and technical and professional services of which \$4,488 remains unpaid at May 31, 2005 and is included in accounts payable (May 31, 2004 - \$13,656).

## 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, 2005 and May 31, 2004.

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

	May 31, 2005	May 31, 2004
Canada	\$ 12,179,425	\$9,853,014
United States	919,308	908,534
	<u>\$ 13,098,733</u>	<u>\$10,761,548</u>

## **GGL DIAMOND CORP.**

Notes to Consolidated Financial Statements  
May 31, 2005

### **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 May 31, 2005. If the conditions precedent had been satisfied at May 31, 2005, the additional amount owing under the agreement would be \$191,295.

The Company signed an one year for its head office in Vancouver to February 2006. The balance of the commitment is approximately \$13,617.

### **7. Subsequent Events**

Subsequent to May 31, 2005:

- i) the Company completed a private placement of 1,666,666 units at \$0.18 per unit for gross proceeds of \$300,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.20 per common share during the first year and at \$0.22 per common share during the second year.
- ii) The Company signed an agreement with Ascenta Capital Partners Inc. for investor relations services. Ascenta will receive a monthly retainer of \$5,000 and was granted a stock option to purchase 200,000 common shares at \$0.20 per share.
- iii) The Company acquired 21 mining leases from Mountain Province Diamonds Inc. Camphor Ventures Inc. and De Beers Canada Inc. These leases are on property which, in part, adjoins the LA-1 claim on the Company's 100% owned Doyle Lake property. See Note 1 - New Property Acquisition, Doyle Project Area for further details.
- iv) 1,039,000 stock options expired unexercised.
- v) the Company issued 520,000 stock options to employees and consultants at \$0.20 per common share exercisable for five years.