GGL DIAMOND CORP.

# Consolidated Financial Statements

## November 30, 2008 and 2007

**Index**

# GGL DIAMOND CORP.

Consolidated Balance Sheets
November 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 332,665 | $ 745,148 |
| Amounts receivable | 128,665 | 215,465 |
| Prepaid expenses | 21,762 | 13,038 |
| | 483,092 | 973,651 |
| **Unproven mineral interests** (Note 4) | 19,954,322 | 15,428,331 |
| **Property and equipment** (Note 5) | 424,362 | 450,349 |
| | $ 20,861,776 | $ 16,852,331 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 699,933 | $ 234,153 |
| Current portion of mortgage loan (Note 6) | - | 10,705 |
| | 699,933 | 244,858 |
| **Commitments** (Note 14) | | |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital** (Note 7) | 35,211,782 | 31,689,095 |
| **Contributed surplus** (Note 9) | 3,822,571 | 3,125,977 |
| **Deficit** | (18,872,510) | (18,207,599) |
| | 20,161,843 | 16,607,473 |
| | $ 20,861,776 | $ 16,852,331 |

**On behalf of the Board:**

**Nature and Continuance of Operations** (Note 1)
**Subsequent events** (Note 17)

*"Raymond A. Hrkac"*

*"Nick DeMare"*

The accompanying notes are an integral part of these consolidated financial statements.

# GGL DIAMOND CORP.

Consolidated Statements of Operations and Deficit
Years Ended November 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Expenses** | | |
| Amortization | $ 2,632 | $ 3,271 |
| Consulting fees | 245,265 | 310,725 |
| Corporate relations | 7,877 | 54,584 |
| Exploration costs – general | 187,036 | 207,583 |
| Legal and audit | 77,029 | 253,694 |
| Licences, taxes, insurance and fees | 40,905 | 51,485 |
| Office services and expenses | 209,668 | 183,464 |
| Shareholders' meetings and reports | 33,253 | 135,137 |
| Stock-based compensation | 703,094 | 2,061,719 |
| Travel | 22,255 | 27,520 |
| **Operating loss** | (1,529,014) | (3,289,182) |
| **Other income (expenses)** | | |
| Interest income | 76,548 | 41,063 |
| Foreign exchange loss | 1,605 | (2,652) |
| Gain on sale of equipment | - | 13,519 |
| Interest expense | (952) | (4,455) |
| Other tax expense | (55,000) | (1,481) |
| Write off of property and equipment | (3,828) | - |
| Write off of exploration and unproven mineral interests (Note 4(a),(b)) | (558,415) | (78,887) |
| | (540,042) | (32,893) |
| **Loss for the year before taxes** | (2,069,056) | (3,322,075) |
| Future income tax recovery (Note 11) | 1,404,145 | 66,351 |
| **Net loss and comprehensive loss for the year** | (664,911) | (3,255,724) |
| **Deficit,** beginning of year | (18,207,599) | (14,951,875) |
| **Deficit,** end of year | $ (18,872,510) | $ (18,207,599) |
| **Loss per share -** basic and diluted | $ (0.00) | $ (0.03) |
| **Weighted average number of common shares outstanding** - basic and diluted | 140,072,540 | 114,307,679 |

The accompanying notes are an integral part of these consolidated financial statements.

# GGL DIAMOND CORP.

Consolidated Statements of Cash Flows
Years Ended November 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net loss and comprehensive loss for the year | $ (664,911) | $ (3,255,724) |
| Adjustment for items not involving cash: | | |
| - amortization of property and equipment | 2,632 | 3,271 |
| - amortization of exploration property and equipment | 68,592 | 72,912 |
| - future tax recovery | (1,404,145) | (66,351) |
| - gain on sale of equipment | - | (13,519) |
| - stock-based compensation | 703,094 | 2,061,719 |
| - write off of property and equipment | 3,828 | - |
| - write off of exploration and unproven mineral interests | 558,415 | 78,887 |
| | (732,495) | (1,118,805) |
| Change in non-cash working capital items: | | |
| - amounts receivable | 86,800 | (166,433) |
| - prepaid expenses | (8,724) | 12,984 |
| - accounts payable and accrued liabilities | 876,278 | (1,576,582) |
| | 221,859 | (2,848,836) |
| **Cash flows from financing activities** | | |
| Shares issued for cash, net of share issuance costs | 636,613 | 4,390,455 |
| Shares issued for cash – flow-through shares, net of share issuance costs | 4,238,719 | 181,823 |
| Principal reduction of mortgage loan | (10,705) | (16,736) |
| | 4,864,627 | 4,555,542 |
| **Cash flows used in investing activities** | | |
| Acquisition of unproven mineral interests | (66,429) | (204,937) |
| Additions to deferred exploration costs | (5,383,474) | (683,140) |
| Proceeds from sale of equipment | - | 16,000 |
| Purchase of property and equipment | (49,066) | (255,157) |
| | (5,498,969) | (1,127,234) |
| **(Decrease) increase in cash and cash equivalents** | (412,483) | 579,472 |
| **Cash and cash equivalents,** beginning of year | 745,148 | 165,676 |
| **Cash and cash equivalents,** end of year | $ 332,665 | $ 745,148 |

See also Note 15

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Nature and Continuance of Operations

The Company is in the exploration stage and, on the basis of information to date, does not yet have economically recoverable reserves. The underlying value of the mineral properties and related deferred costs is entirely dependent upon the existence of such reserves, the ability of the Company to obtain the necessary financing to develop the reserves and upon future profitable production.

The Company intends to continue its exploration programs. The Company's ability to continue its exploration programs is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management is actively pursuing such additional sources of financing.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown in the consolidated financial statements should the Company be unable to continue as a going concern. The ability of the Company to settle its liabilities as they come due and to fund ongoing operations is dependent upon the ability of the Company to obtain additional funding from equity financing. Failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis.

## 2. Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its 86.8%-owned subsidiary Rio Sonora Resources Ltd. ("Rio Sonora") and its wholly-owned U.S. subsidiary, Gerle Gold (U.S.) Inc. ("Gerle Gold"). Both Rio Sonora and Gerle Gold are presently inactive. All inter-company transactions and balances have been eliminated.

(b) Unproven Mineral Interests

The cost of unproven mineral interests and the related exploration costs are deferred until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold or abandoned. Management will also periodically determine when or where an exploration property is inactive and the value of such property may be impaired, whether the carrying value of the property should be written down, and the amount at which it should be carried.

**2. Significant Accounting Policies** (continued)

(b) Unproven Mineral Interests, continued

The amounts shown for unproven mineral interests represent costs or deemed consideration, less write-offs, incurred to date, and do not necessarily reflect present or future values. The recoverability of amounts shown for unproven mineral interests is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects, and on future profitable production or proceeds from the disposition thereof.

Ownership in mineral interests involves certain inherent risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

(c) Property Option Agreements

From time to time, the Company may acquire or dispose of unproven mineral interests pursuant to the terms of option agreements. When the Company is the optionee, due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as unproven mineral interest costs or recoveries when the payments are made or received.

(d) Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when purchased.

(e) Property and Equipment

Property and equipment are carried at cost. Amortization of the property and equipment is provided on a declining-balance basis, unless otherwise noted, at the following annual rates:

| | |
|---|---|
| Office furniture and fixtures | 20% |
| Exploration equipment | 20% |
| Vehicle | 30% |
| Yellowknife House | 25 years straight line |

(f) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts, if applicable, are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Shares held in escrow are excluded in the computation of loss per share until the conditions for their release are satisfied.

**2. Significant Accounting Policies** (continued)

(g) Foreign Exchange Translation

The Company uses the temporal method for translating its foreign currency transactions to Canadian dollars. Under this method, monetary assets and liabilities have been converted at the exchange rate prevailing at the balance sheet dates. Income and expenses are translated at the rates prevailing at dates of the related transactions. Non-monetary assets, liabilities and equity are translated at historical rates. Gains and losses on foreign exchange are included in earnings for the year.

(h) Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the amount of expenses reported during the reporting period. Examples of significant estimates include amortization, the provision for future income tax recoveries and composition of future income tax assets and liabilities, valuation of unproven mineral interests and the fair value of stock-based compensation. Actual results could differ from those reported.

(i) Income Taxes

Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

(j) Stock-Based Compensation

The fair value of stock options and share purchase warrants issued as compensation is determined by the widely used Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and the expected life of the options. The fair value of direct awards of common shares is determined by the quoted market price of the Company's stock.

(k) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is adjusted to reflect revision to either timing or the amount of the original estimate of the undiscounted cash flow. As at November 30, 2008, the Company does not have any asset retirement obligations.

**2. Significant Accounting Policies** (continued)

(l) Long-lived Assets Impairment

Long-lived assets are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is determined to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

**3. Adoption of New Accounting Policies**

***Current Changes in Accounting Policies***

(a) Accounting Changes

Effective December 1, 2007, the Company implemented the new CICA accounting section 1506 (Accounting Changes). Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued, but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on recent accounting pronouncements.

(b) Capital Disclosures

Effective December 1, 2007, the Company implemented the new CICA accounting section 1535 (Capital Disclosures). Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Disclosures required by this standard are included in Note 16.

(c) Financial Instruments

Effective December 1, 2007, the Company implemented the new accounting CICA sections: 3862 (Financial Instruments – Disclosure) and 3863 (Financial Instruments – Presentation), which replaced section 3861 (Financial Instruments – Disclosures and Presentation).

3. **Adoption of New Accounting Policies** (continued)

***Current Changes in Accounting Policies** (continued)*

(c) Financial Instruments, continued

These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements of section 3861. Sections 3862 and 3863 emphasize the significance and measurement basis of financial instruments for the entity's financial position and performance, the nature and extent of the risks arising from financial instruments and how these risks are managed. These new standards are applicable to interim and annual periods relating to fiscal years beginning on or after October 1, 2007. Disclosures required by this standard are included in Note 13.

***Future Changes in Accounting Policies***

(a) Goodwill and Intangible Assets, Section 3064

The CICA issued the new Handbook section 3064, "Goodwill and Intangible Assets", which will replace section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008.

(b) Going Concern – Amendments of Section 1400

CICA 1400, General Standards of Financial Statements Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

(c) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## 4. Unproven Mineral Interests

| | Balance November 30, 2007 | 2008 Mineral Interests Additions | 2008 Exploration Cost Additions | 2008 Written Off | Balance November 30, 2008 |
|---|---|---|---|---|---|
| Doyle Lake | $ 3,835,843 | $ - | $ 133,612 | $ (477,654) | $ 3,491,801 |
| Fishback Lake | 1,285,995 | - | 21,423 | (80,761) | 1,226,657 |
| CH | 7,580,214 | - | 154,223 | - | 7,734,437 |
| Providence Greenstone Belt | 1,131,239 | 66,429 | 3,537,439 | - | 4,735,107 |
| McConnell Creek | 1,595,040 | - | 1,171,280 | - | 2,766,320 |
| | $ 15,428,331 | $ 66,429 | $ 5,017,977 | $ (558,415) | $ 19,954,322 |

| | Balance November 30, 2007 | 2008 Additions | 2008 Written Off | Balance November 30, 2008 |
|---|---|---|---|---|
| Unproven Mineral Interests | $ 579,921 | $ 66,429 | $ (15,096) | $ 631,254 |
| Deferred exploration costs | 14,848,410 | 5,017,977 | (543,319) | 19,323,068 |
| | $ 15,428,331 | $ 5,084,406 | $ (558,415) | $ 19,954,322 |

Exploration costs incurred during the year are as follows:

| | 2008 | 2007 |
|---|---|---|
| Chartered aircraft | $ 910,078 | $ 374,674 |
| Drilling, sampling | 682,758 | 127,560 |
| Licences, recording fees, lease payments | 185,469 | 155,916 |
| Project supplies | 510,370 | 104,458 |
| Salaries and wages | 325,002 | 223,740 |
| Surveys | 1,386,100 | 64,190 |
| Technical and professional services | 912,847 | 303,466 |
| Transportation | 105,353 | 77,833 |
| | $ 5,017,977 | $ 1,431,837 |

**4. Unproven Mineral Interests** (continued)

(a) Doyle Lake, Northwest Territories, Canada

Under the De Beers Agreement ("the Agreement") dated May 25, 1995, De Beers has earned a 60% interest in the Doyle Lake Properties ("the Properties"), which consist of 5 claims and 3 fractional claims (12,972 acres) (2006 – 5 claims and 3 fractional claims, 12,972 acres), by completing exploration expenditures of $4.65 million. To November 30, 2008, De Beers has spent over $7.5 million. All of the Company's 40% share of costs and expenses of prospecting, exploration, development and construction incurred preproduction and financed by De Beers or by way of third party borrowings will be recovered by De Beers out of 90% of annual available cash flow (i.e. cash flow after provision for ongoing operating and non-operating costs) from any mine constructed on the Properties with interest at a rate equal to LIBOR plus 3% or the actual interest rates agreed to be paid, whichever is applicable, and the remaining 10% of such available cash flow will be distributed to the members in the Agreement in proportion to their interests in the Properties. If after the completion of a feasibility study and prior to the commencement of commercial production from the first mine, the members in the Agreement cease to carry on development work on the Properties otherwise than by reason of force majeure for a period of more than two years, interest other than interest on third party borrowings, shall cease to accrue during the portion of such period exceeding two years. When development work resumes, interest will continue to accrue.

In 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 agreed to keep the leases in good standing and submit three yearly lease rental period payments to the NT Mining Recorders Office. All three payments have been submitted. In 2008, the Company relinquished ten of the mining leases (25,530 acres) and the related costs of $477,654 were written off.

In addition, the Company holds 36 claims (39,726 acres) (2007 - 36 claims; 39,726 acres) in the Doyle Lake area that are not subject to the Agreement. 35 of these claims are leases.

(b) Fishback Lake, Northwest Territories, Canada

The Company owns 15 claims (29,561 acres) (2007 - 18 claims; 36,199 acres). Three of these claims are leases. In 2008 three claims were allowed to lapse and the related costs of $80,761 were written off.

(c) CH, Northwest Territories, Canada

The Company owns 121 claims (269,792 acres) (2007 – 121 claims; 269,792 acres), north-northeast of Yellowknife, acquired by staking during the years 2000 to 2003. For financial statement purposes, these claims include the Courageous, Mackay, Seahorse, Starfish, Winterlake North, GDC, Winterlake South, BP, Zip, G and Mill claims. See Note 17(c).

**4. Unproven Mineral Interests** (continued)

(d) Providence Greenstone Belt, Northwest Territories, Canada.

The Company owns 152 claims (332,509 acres) (2007 – 116 claims; 256,490 acres) in the Providence Greenstone Belt area of the Northwest Territories. These claims lie within an extensive belt of rocks previously identified by a mapping project funded by the Geological Survey of Canada and reported as having the potential for hosting magmatic nickel mineralization.

(e) McConnell Creek, British Columbia, Canada

The Company owns 2 mineral tenures (4,878 hectares) (2007 – 2 mineral tenures; 4,878 hectares) in the Omineca Mining Division of British Columbia.

**5. Property and Equipment**

| | 2008 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net book Value |
| Yellowknife land | $ 98,500 | $ - | $ 98,500 |
| Yellowknife house | 186,687 | 110,743 | 75,944 |
| Exploration equipment | 634,299 | 414,922 | 219,377 |
| Vehicle | 10,500 | 6,899 | 3,601 |
| Office furniture and fixtures | 65,768 | 38,828 | 26,940 |
| | $ 995,754 | $ 571,392 | $ 424,362 |

| | 2007 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net book Value |
| Yellowknife land | $ 98,500 | $ - | $ 98,500 |
| Yellowknife house | 186,687 | 102,641 | 84,046 |
| Exploration equipment | 593,267 | 364,211 | 229,056 |
| Vehicle | 10,500 | 5,355 | 5,145 |
| Office furniture and fixtures | 86,583 | 52,981 | 33,602 |
| | $ 975,537 | $ 525,188 | $ 450,349 |

**6. Mortgage Loan**

The Company paid off the balance of its mortgage in 2008. See Note 17(a).

## 7. Share Capital

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

(b) Issued:

| | Number of Shares | Amount |
|---|---|---|
| **Balance, November 30, 2006** | **100,641,445** | **$ 26,877,373** |
| Private placement, net of share issuance costs | 4,170,000 | 515,254 |
| Private placement – flow-through shares, net of share issuance costs | 1,053,778 | 177,603 |
| Shares issued as finder's fees | 28,140 | 4,221 |
| Shares issued for services | 122,846 | 45,000 |
| Exercise of stock options | 1,800,167 | 392,567 |
| Exercise of share purchase warrants | 14,915,294 | 3,480,095 |
| Reallocation from contributed surplus on exercise of stock options | - | 222,029 |
| Reallocation from contributed surplus on exercise of share purchase warrants | - | 38,766 |
| Less: flow-through share renunciation | - | (66,351) |
| Other share issue costs | - | 2,538 |
| **Balance, November 30, 2007** | **122,731,670** | **$ 31,689,095** |
| Private placement, net of share issuance costs | 2,875,000 | 560,090 |
| Private placement – flow-through shares, net of share issuance costs (see Notes 7 (c)(i)) | 18,118,000 | 4,193,119 |
| Shares issued as finder's fees | 190,000 | 46,000 |
| Shares issued for services | 247,355 | 45,000 |
| Exercise of stock options | 135,000 | 31,250 |
| Exercise of share purchase warrants | 310,000 | 49,000 |
| Reallocation from contributed surplus on exercise of stock options | - | 6,500 |
| Less: flow-through share renunciation | - | (1,404,145) |
| Other share issue costs | - | (4,127) |
| **Balance, November 30, 2008** | **144,607,025** | **35,211,782** |

**7. Share Capital** (continued)

(c) During the year ended November 30, 2008:

(i) the Company completed a private placement of 16,058,000 flow-through shares at $0.25 per common share for gross proceeds of $4,014,500. The proceeds from these flow-through shares will be spent on Canadian Exploration Expenditures ("CEE") on the Company's unproven mineral interests. The Company paid cash finder's fees of $237,600 and issued 160,000 common shares (at a value of $40,000) on a portion of the proceeds. The Company also incurred share issue costs of $46,830;

the Company completed a private placement of 2,060,000 flow-through shares at $0.25 per common share for gross proceeds of $515,000. The proceeds from these flow-through shares will be spent on Canadian Exploration Expenditures ("CEE") on the Company's Northwest Territories properties. The Company issued 28,000 common shares (at a value of $5,600) as finder's fees on a portion of the proceeds. The Company also incurred share issue costs of $6,351;

in addition the Company issued 2,875,000 units at $0.20 per unit for gross proceeds of $575,000. Each unit consists of one common share and one share purchase warrant. One share purchase warrant is exercisable at $0.30 per common share during the first year and at $0.40 per common share during the second year. The Company paid cash finder's fees of $8,160 and issued 2,000 common shares (at a value of $400) on a portion of the proceeds. The Company also incurred other share issue costs of $6,350;

(ii) the Company issued 247,355 common shares in payment of $45,000 owed pursuant to a financial advisory agreement;

(iii) the Company issued 135,000 common shares upon the exercise of stock options at $0.20 and $0.25 per common share for gross proceeds of $31,250;

(iv) the Company issued 310,000 common shares upon the exercise of warrants at $0.15 and $0.175 per common share for gross proceeds of $49,000.

(v) 208,000 warrants expired unexercised; and

(vi) 555,000 stock options expired unexercised.

**7. Share Capital** (continued)

(d) Changes in warrants during the years ended November 30, 2008 and 2007 are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding, beginning of year | 3,248,000 | $0.16 | 17,974,132 | $0.23 |
| Issued | 2,875,000 | $0.30 | 4,696,889 | $0.16 |
| Exercised | (310,000) | $0.16 | (14,915,294) | $0.23 |
| Expired | (208,000) | $0.45 | (4,507,727) | $0.27 |
| Outstanding, end of year | 5,605,000 | $0.24 | 3,248,000 | $0.16 |

The Company has the following share purchase warrants outstanding as at November 30, 2008:

| Number of warrants | Exercise Price | Expiry Date |
|---|---|---|
| 2,400,000 | $0.175 | Dec. 21, 2008 |
| 100,000 | $0.25 | Jan. 3, 2009 |
| 230,000 | $0.175 | Mar. 7, 2009 |
| 2,855,000 | $0.30/$0.40 | Aug. 13, 2010 |
| 20,000 | $0.30/$0.40 | Aug. 18, 2010 |
| 5,605,000 | | |

**8. Stock Options**

In 2006, the Company 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 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. Awarded stock options are exercisable over a period not exceeding five years at exercise prices determined by the Board of Directors.

**8. Stock Options** (continued)

Under the 10% rolling plan, the number of shares available for grant increases as the issued capital of the Company increases.

In 2008, the Company's Board of Directors approved and granted 4,292,500 stock options (2007 – 3,835,000) to the directors, officers, employees, and consultants. Each option entitles its holder to acquire one common share of the Company at $0.20 per common share. The options expire between May 1, 2013 and July 31, 2013. In 2008 the Company recorded $703,094 (2007 - $2,061,719) of stock based compensation expense for the stock options granted.

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding as at November 30, 2006 | 5,536,000 | $0.26 |
| Granted | 3,835,000 | $0.58 |
| Exercised | (1,800,167) | $0.22 |
| Expired | (150,000) | $0.25 |
| Options outstanding as at November 30, 2007 | 7,420,833 | $0.43 |
| Granted | 4,292,500 | $0.20 |
| Exercised | (135,000) | $0.23 |
| Expired | (555,000) | $0.27 |
| **Options outstanding as at November 30, 2008** | **11,023,333** | **$0.35** |

| | | |
|---|---|---|
| 2008 options exercisable | 11,023,333 | $0.35 |
| 2007 options exercisable | 7,408,333 | $0.43 |

| | 2008 | 2007 |
|---|---|---|
| Weighted average remaining contractual life | 3.35 | 3.39 years |
| Weighted average fair value of options granted during the year | $0.19 | $0.58 |

**8. Stock Options** (continued)

The following table sets forth information relating to stock options outstanding as at November 30, 2008:

| Expiry | Range of exercise prices | Number outstanding at Nov. 30, 2008 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable at Nov. 30, 2008 | Weighted average exercise price |
|---|---|---|---|---|---|---|
| Jan. 13/09 | $0.20 | 70,000 | 0.12 | $0.20 | 70,000 | $0.20 |
| Jan. 13/09 | $0.63 | 30,000 | 0.12 | $0.63 | 30,000 | $0.63 |
| Jan. 15/09 | $0.26 | 325,000 | 0.13 | $0.26 | 325,000 | $0.26 |
| Jan. 15/09 | $0.50 | 310,000 | 0.13 | $0.50 | 310,000 | $0.50 |
| Mar. 19/09 | $0.50 | 330,000 | 0.30 | $0.50 | 330,000 | $0.50 |
| May 12/10 | $0.20 | 300,000 | 1.45 | $0.20 | 300,000 | $0.20 |
| June 7/10 | $0.20 | 50,000 | 1.52 | $0.20 | 50,000 | $0.20 |
| July 8/10 | $0.20 | 210,000 | 1.61 | $0.20 | 210,000 | $0.20 |
| Oct. 28/10 | $0.20 | 25,000 | 1.91 | $0.20 | 25,000 | $0.20 |
| Mar. 23/11 | $0.20 | 775,000 | 2.31 | $0.20 | 775,000 | $0.20 |
| May 12/11 | $0.26 | 495,000 | 2.45 | $0.26 | 495,000 | $0.26 |
| Aug. 15/11 | $0.20 | 60,833 | 2.71 | $0.20 | 60,833 | $0.20 |
| May 1/12 | $0.63 | 930,000 | 3.42 | $0.63 | 930,000 | $0.63 |
| July 31/12 | $0.56 | 2,875,000 | 3.67 | $0.56 | 2,875,000 | $0.56 |
| May 01/13 | $0.20 | 762,500 | 4.42 | $0.20 | 762,500 | $0.20 |
| May 23/13 | $0.20 | 3,450,000 | 4.48 | $0.20 | 3,450,000 | $0.20 |
| July 31/13 | $0.20 | 25,000 | 4.67 | $0.20 | 25,000 | $0.20 |
| | | 11,023,333 | | | 11,023,333 | |

**8. Stock Options** (continued)

The fair value of each option granted was estimated as of the date of grant using the *Black-Scholes option pricing model* with the following assumptions:

| | 2008 | 2007 |
|---|---|---|
| Risk-free interest rate | 3.1217 to 3.2899% | 3.974 to 4.50% |
| Dividend yield | 0% | 0% |
| Volatility | 126.91 to 126.93% | 157.31 to 164.31% |
| Approximate expected lives | 5 Years | 5 Years |
| Approximate forfeiture rate | 0% | 0% |

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

**9. Contributed Surplus**

Contributed surplus for 2007 and 2006 is comprised of:

| | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year | $3,125,977 | $ 1,325,053 |
| Stock-based compensation on stock options | 703,094 | 2,061,719 |
| Stock options exercised | (6,500) | (222,029) |
| Warrants exercised | - | (38,766) |
| Balance, end of year | $3,822,571 | $ 3,125,977 |

**10. Related Party Transactions**

During the year, the Company was billed $145,000 by a director (2007 - $120,000), including $100,550 (2007 - $120,000) for consulting fees and $44,450 (2007 - nil) for technical and professional services. Included in the November 30, 2008 accounts payable is $75,830 (2007 – nil) owed by the Company to the director. Transactions with related parties are measured on the basis of amounts agreed to by transacting parties.

## 11. Income Taxes

| | 2008 | 2007 |
|---|---|---|
| Loss before income taxes | $ 2,069,056 | $ 3,322,075 |
| Combined federal and provincial income tax rate | 31% | 34.12% |
| Expected (provision) recovery for income taxes | 641,407 | 1,133,492 |
| Permanent differences | (113,601) | (685,297) |
| Loss expiry | (30,596) | (69,795) |
| Tax rate changes | (139,260) | - |
| Change in valuation allowance | 1,046,195 | (312,049) |
| | $ 1,404,145 | $ 66,351 |

The income tax effects of temporary timing differences that give rise to significant components of future income tax assets and liabilities are as follows:

| **Future income tax assets and liabilities are as follows:** | 2008 | 2007 |
|---|---|---|
| Property, plant and equipment | $ 183,763 | $ 228,924 |
| Unproven mineral interests | (913,535) | 125,205 |
| Non-capital losses carry-forwards | 972,660 | 933,635 |
| Capital losses | 3,615 | 4,934 |
| Total gross future income tax (liabilities) assets | 246,503 | 1,292,698 |
| Valuation allowance | $ (246,503) | $ (1,292,698) |
| | - | - |

**11. Income Taxes** (continued)

The Company has non-capital losses for income tax purposes of approximately $3,365,672, available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as there is no reasonable assurance such benefit will be realized. If unused, the non-capital losses become no longer available to reduce taxable income after the end of the following taxation years ending:

| Year | Non Capital Losses |
|---|---|
| 2009 | $ 236,598 |
| 2010 | 274,405 |
| 2014 | 229,883 |
| 2015 | 547,542 |
| 2026 | 310,854 |
| 2027 | 1,007,914 |
| 2028 | 758,476 |
| | $ 3,365,672 |

Certain events may result in the earlier expiry of the non-capital losses. Management, however, does not anticipate any such events.

**12. Segmented Information**

The Company is involved in mineral exploration and development activities, which are conducted entirely in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for each of the years ended November 30, 2008 and 2007.

## 13. Financial Instruments

### (a) Fair Value

The fair value of financial instruments at November 30, 2008 and 2007 is summarized as follows:

| | November 30, 2008 | | November 30, 2007 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| *Held for trading* | | | | |
| Cash and cash equivalents | $ 332,665 | $ 332,665 | $ 745,148 | $ 745,148 |
| *Loans and receivables* | | | | |
| Amounts receivable | $ 128,665 | $ 128,665 | $ 215,465 | $ 215,465 |
| **Financial Liabilities** | | | | |
| *Other Financial liabilities* | | | | |
| Accounts payable and accrued liabilities | $ 699,933 | $ 699,933 | $ 234,153 | $ 234,153 |
| Current portion of mortgage loan | $ - | $ - | $ 10,705 | $ 10,705 |

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments.

### (b) Financial Risk Management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, foreign exchange risk (currency), liquidity risk, and interest rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company deposits the majority of its cash and invests its cash equivalents with high credit quality financial institutions in Canada.

**13. Financial Instruments** (continued)

(b) **Financial Risk Management**, continued

Currency risk

The Company operates in Canada and transacts business with foreign vendors and is therefore exposed to foreign exchange risk arising from transactions denominated in foreign currencies.

The Company had the following balances in foreign currencies at November 30, 2008:

| | US Dollar |
|---|---|
| Cash | USD $ 859 |
| Equivalent in Canadian dollars | $ 1,062 |

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to significant interest rate risk because of their short-term to maturity.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The Company manages liquidity by maintaining adequate cash and cash equivalents balances.

**14. Commitments**

In 2006, the Company entered into a three-year operating lease agreement with respect to its office premises and acquired additional office space for three years. Both leases end June 30, 2009 and the minimum payment required under the agreement is $39,722 in 2009.

## 15. Supplementary Cash flow information

Non-cash operating, financing, and investing activities were conducted by the Company during fiscal year 2008 and 2007 as follows:

| | 2008 | 2007 |
|---|---|---|
| Operating activities | | |
| Accounts payable for deferred exploration costs | $ 489,014 | $ 123,517 |
| Financing activities | | |
| Issuance of common shares as finder's fee | $ 46,000 | 4,221 |
| Investing activities | | |
| Accounts payable for deferred exploration costs | $ (489,014) | $ (123,517) |
| Other supplementary cash flow information: | | |
| Cash paid for interest charges | $ 1,149 | $ 4,608 |
| Cash paid for income taxes | $ - | $ - |

## 16. Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's common shares are listed on the TSX Venture Exchange ("TSX-V"). The TSX-V's policies impose certain minimum capital requirements upon the Company. Due to current market conditions, the TSX-V is granting temporary relief from certain policy requirements on a case by case basis to listed issuers which are facing conditions of immediate or imminent financial hardship. The temporary relief period will expire September 30, 2009. The Company has applied to the TSX-V subsequent to year-end to request temporary relief from the minimum six month working capital requirement.

**17. Subsequent Events**

Subsequent to November 30, 2008, the following occurred:

(a) the Company sold its house in Yellowknife for $405,000. The gain from the sale of the house is approximately $223,000;

(b) the Company signed a non-exclusive licence agreement for the use of its Slave Geological Province data set for diamond exploration for $100,000 and will provide 500 hours of technical support at a price of $50,000 prepaid;

(c) the Company signed an exploration and option agreement on 73 of its CH claims in the Northwest Territories. Kennecott Canada Exploration Inc. must make payments totalling $1,000,000 and incur cumulative expenditures of $10,000,000 in order to earn a 100% interest, subject to a gross overriding royalty of 1.5% of the appraised value of all gem and industrial diamonds recovered, sorted and graded from the property and a 1.5% net smelter returns royalty on the net value of all ores, minerals, metals and materials except diamonds, mined and removed from the property and sold or deemed to have been sold. The payments and both royalties are payable to the Company; and

(d) 1,065,000 stock options expired unexercised.