GGL DIAMOND CORP.

Consolidated Financial Statements

November 30, 2004 and 2003

Index

ELLIS FOSTER
CHARTERED ACCOUNTANTS

1650 West 1st Avenue
Vancouver, BC Canada V6J 1G1
Telephone: (604) 734-1112 Facsimile: (604) 714-5916
www.ellisfoster.com

AUDITORS' REPORT

To the Shareholders of

GGL DIAMOND CORP.

We have audited the consolidated balance sheets of **GGL Diamond Corp.** as at November 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"*ELLIS FOSTER*"

Chartered Accountants

Vancouver, Canada
January 18, 2005

GGL DIAMOND CORP.
Consolidated Balance Sheets
November 30, 2004 and 2003

	2004	2003
ASSETS		
Current		
Cash and cash equivalents	$ 882,400	$ 1,575,129
Marketable securities	3,800	3,800
Sundry receivables	65,648	59,318
Prepaid expenses	223	3,807
	952,071	1,642,054
Mineral properties and deferred exploration costs (Note 4)	9,679,167	7,399,202
Property, plant and equipment (Note 5)	286,093	285,006
	$ 10,917,331	$ 9,326,262
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 146,075	$ 211,460
Current portion of mortgage loan (Note 6)	14,153	13,124
	160,228	224,584
Mortgage loan (Note 6)	42,806	57,676
	203,034	282,260
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	22,393,539	19,909,724
Contributed surplus	572,372	141,628
Deficit	(12,251,614)	(11,007,350)
	10,714,297	9,044,002
	$ 10,917,331	$ 9,326,262

Operations (Note 1)
Commitments (Note 14)
Subsequent events (Note 15)

Approved by the Board of Directors

(signed) *"Raymond A. Hrkac"*
Raymond A. Hrkac

(signed) *"Nick DeMare"*
Nick DeMare

GGL DIAMOND CORP.

Consolidated Statements of Operations and Deficit
Years Ended November 30, 2004 and 2003

	2004	2003
Administration costs		
Amortization	$ 3,325	$ 1,980
Consulting fees	70,239	79,426
Corporate relations	31,486	31,635
Interest expense	811	940
Legal and audit	40,373	41,028
Licences, taxes, insurance and fees	76,012	61,215
Office services and expenses	103,913	104,227
Shareholders' meetings and reports	24,880	23,037
Stock based compensation	430,744	106,648
Travel	66,436	65,238
Operating loss	(848,219)	(515,374)
Other income (expenses)		
Interest income	30,218	19,326
Foreign exchange adjustments	(4,160)	(4,139)
Part XII.6 Tax expense (Note 12)	(9,297)	-
Exploration costs – general	(142,497)	(110,554)
Exploration costs – mortgage interest	(3,220)	(4,145)
Write-off of exploration and mineral property costs	(267,089)	(339,243)
	(396,045)	(438,755)
Loss for the year	(1,244,264)	(954,129)
Deficit, beginning of year	(11,007,350)	(10,053,221)
Deficit, end of year	$ (12,251,614)	$ (11,007,350)
Loss per share - basic and diluted	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding - basic and diluted	70,830,544	59,243,822

GGL DIAMOND CORP.

Consolidated Statements of Cash Flows
Years Ended November 30, 2004 and 2003

	2004	2003
Cash flows from (used in) operating activities		
Loss for the year	$ (1,244,264)	$ (954,129)
Adjustment for items not involving cash:		
- amortization of property, plant & equipment	50,462	41,095
- stock based compensation	430,744	106,648
- write off of exploration and mineral property costs	267,089	339,243
	(495,969)	(467,143)
Change in non-cash working capital items:		
- sundry receivables	(6,330)	23,047
- prepaid expenses	3,584	84,990
- accounts payable and accrued liabilities	(65,385)	(145,359)
	(564,100)	(504,465)
Cash flows from (used in) financing activities		
Shares issued for cash, net of share issuance cost	1,494,000	3,552,084
Share issued for cash – flow-through shares, net of share issuance costs	989,815	-
Principal reduction of mortgage loan	(13,841)	(13,124)
	2,469,974	3,538,960
Cash flows from (used in) investing activities		
Mineral properties	(94,194)	(49,860)
Deferred exploration costs	(2,452,860)	(1,552,880)
Purchase of property, plant and equipment	(51,549)	(36,038)
	(2,598,603)	(1,638,778)
(Decrease) increase in cash and cash equivalents	(692,729)	1,395,717
Cash and cash equivalents, beginning of year	1,575,129	179,412
Cash and cash equivalents, end of year	$ 882,400	$ 1,575,129
Supplementary cash flow information		
Cash paid for interest charges	$ 4,031	$ 5,085
Cash paid for income taxes	$ -	$ -

1. Operations

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.

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.

2. Change in Accounting Policy

Effective December 1, 2003, the Company adopted on a prospective basis, the fair value method of accounting for all stock option awards granted to employees and directors, as recommended by the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based compensation and other stock-based payments*. The Handbook provides alternative methods of transition for the adoption of the fair value method and, as permitted, the Company has elected the prospective application, which allows the fair value method to be applied to awards granted, modified or settled on or after December 1, 2003. Under the new standards, direct awards of stock granted to employees are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period.

Pro-forma disclosure for options granted prior to December 1, 2003, as required by the standard, had the Company used the fair value method is presented in Note 8.

The fair value of stock options 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 stock is determined by the quoted market price of the Company's stock.

The change in accounting policy has no cumulative effect on the prior year's financial statements.

3. 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. Rio Sonora is presently inactive. All inter-company transactions and balances have been eliminated.

(b) Mineral Properties and Related Deferred Costs

The cost of mineral properties 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.

The amounts shown for mineral properties 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 mineral property 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 property 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 Agreement

From time to time, the Company may acquire or dispose of mineral properties pursuant to the terms of option agreements. 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 mineral property costs or recoveries when the payments are made or received.

(d) Cash Equivalents

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

3. Significant Accounting Policies (continued)

(e) Property, Plant and Equipment

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

Furniture and fixtures	20%
Exploration equipment	20%

The Yellowknife house is amortized on a straight-line basis over 25 years.

(f) Marketable Securities

Marketable securities are stated at the lower of cost or market value.

(g) 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 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.

(h) Foreign Exchange Translation

The Company uses the temporal method for translating its U.S. operations from U.S. dollars 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 income and expenses.

(i) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Actual results could differ from those reported.

3. Significant Accounting Policies (continued)

(j) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(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, 2004, the Company does not have any asset retirement obligations.

(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 deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis. There were no impairment adjustments in fiscal years 2003 and 2004.

4. Mineral Properties and Deferred Exploration Costs

	Balance November 30 2003	2004 Property Cost Additions	2004 Exploration Cost Additions	2004 Written Off	Balance November 30 2004
Doyle Lake	$ 718,214	$ -	$ 225,055	$ -	$ 943,269
Clinton	18,619	-	1,744	(20,363)	-
Fishback Lake and Dessert Lake	246,825	62,911	510,711	(76,504)	743,943
CH	4,077,385	-	1,696,111	(127,463)	5,646,033
Regional, NWT	41,944	-	815	(42,759)	-
Happy Creek	907,030	-	10,885	-	917,915
McConnell Creek and other	1,389,185	31,283	7,539	-	1,428,007
	$7,399,202	$ 94,194	$ 2,452,860	$(267,089)	$ 9,679,167

	Balance November 30 2003	2004 Additions	2004 Written Off	Balance November 30 2004
Mineral property costs	$ 483,597	$ 94,194	$ (41,370)	$ 536,421
Deferred exploration costs	6,915,605	2,452,860	(225,719)	9,142,746
	$7,399,202	$ 2,547,054	$(267,089)	$ 9,679,167

Exploration costs incurred during the year are as follows:

	2004	2003
Chartered aircraft	$ 551,017	$ 206,309
Drilling, trenching, sampling	369,348	309,033
Licences and recording fees	55,180	29,341
Project supplies	144,718	108,399
Salaries and wages	133,412	107,585
Surveys	670,098	424,185
Technical and professional services	365,955	223,492
Transportation	163,132	144,536
	$ 2,452,860	$ 1,552,880

4. Mineral Properties and Deferred Exploration Costs (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 consists of 9 claims (15,351.77 acres), by completing exploration expenditures of $4,650,000. To November 30, 2004, De Beers has spent $7,494,496 (to November 30, 2003-$6,838,009). 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 2 years. When development work resumes, interest will continue to accrue.

In addition, the Company holds 38 claims (46,279.4 acres) (2003 - 4 claims; 8,943.5 acres) in the Doyle Lake area that are not subject to the Agreement. 34 of these claims were originally part of the Agreement and were returned to the Company in 2004.

(b) Fishback Lake and Dessert Lake, Northwest Territories, Canada

The Company owns 19 claims (36,834.68 acres) (2003 - 18 claims; 26,845 acres). In 2004, 13 new Fishback Lake claims were staked, 9 old Fishback Lake claims and all of the Dessert Lake claims were allowed to lapse.

(c) CH, Northwest Territories, Canada

The Company owns 129 claims (285,997 acres) (2003 – 139 claims; 311,822 acres), north-northeast of Yellowknife, acquired by staking during the years 2000 to 2003. In 2004, 10 claims were allowed to lapse.

(d) Clinton, Northwest Territories, Canada

The Company owns 6 claims (12,757.55 acres) (2003 – 6 claims; 12,757.55 acres). In 2004, all of the Clinton claims were allowed to lapse.

4. Mineral Properties and Deferred Exploration Costs (continued)

(e) Happy Creek, Nevada, U.S.A.

On June 1, 1985, the Company entered into an agreement through which it has the option to purchase an undivided 100% interest in certain mineral claims located in Humboldt County, Nevada (the Happy Creek property). The option purchase price is a 5% net smelter royalty, payable by advance minimum royalty payments of U.S. $50,000 on December 1 annually until U.S. $3,600,000 has been paid. Payments totalling U.S. $110,000 have been made. The royalty payment due December 1, 2004 was not paid but the agreement is in good standing, as the vendor has not issued a default notice. Once issued, the Company has 30 days to cure the default. The Company has been advised that a default notice will not be issued.

(f) McConnell Creek, British Columbia, Canada

The Company owns 10 mineral claims (140 units) in the Omineca Mining Division of British Columbia. Six claims were staked in 2004.

5. Property, Plant and Equipment

	2004		
	Cost	Accumulated amortization	Net book Value
Yellowknife land	$ 98,500	$ -	$ 98,500
Yellowknife house	181,400	79,816	101,584
Exploration equipment	368,904	297,826	71,078
Office furniture and fixture	49,463	34,532	14,931
	$ 698,267	$ 412,174	$ 286,093

	2003		
	Cost	Accumulated amortization	Net book Value
Yellowknife land	$ 98,500	$ -	$ 98,500
Yellowknife house	181,400	72,560	108,840
Exploration equipment	327,803	258,353	69,450
Office furniture and fixture	39,015	30,799	8,216
	$ 646,718	$ 361,712	$ 285,006

6. Mortgage Loan

	2004	2003
Mortgage loan bearing interest at prime minus 0.5% per annum, repayable in blended bi-weekly payments of principal and interest of $639, due December 3, 2006, secured by land and building	$ 56,959	$ 70,800
Less: Principal due within one year	(14,153)	(13,124)
	$ 42,806	$ 57,676

Required blended payments on the loan are as follows:

Year ending November 30,	
2005	$ 16,602
2006	16,602
2007 (total due if mortgage is not renewed)	27,535
	60,739
Less: Interest	(3,780)
	56,959
Less: Principal due within one year	(14,153)
	$ 42,806

The carrying amount of the mortgage loan approximates its fair market value.

7. Share Capital

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

(b) Issued:

	Shares	Amount
Balance, November 30, 2002	52,880,843	$16,357,640
Private placements, net of share issuance costs of $97,580 and finders' fees of $233,632	9,689,845	2,779,218
Exercise of warrants	1,897,332	498,200
Exercise of stock options	1,060,000	274,666
Balance, November 30, 2003	65,528,020	$19,909,724
Private placement - flow-through shares, net of share issuance costs of $14,685	2,232,222	989,815
Exercise of warrants	6,010,000	1,202,000
Exercise of stock options	1,015,000	292,000
Balance, November 30, 2004	74,785,242	$22,393,539

(c) During the year ended November 30, 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");

(ii) issued 6,010,000 common shares pursuant to the exercise of share purchase warrants at $0.20 per common share for gross proceeds of $1,202,000; and

(iii) issued 1,015,000 common shares pursuant to the exercise of stock options priced at $0.20 to $0.30 per common share for gross proceeds of $292,000.

(d) At November 30, 2004, there were no share purchase warrants outstanding.

8. Stock Options

In 2004, the Company's Board of Directors ("the Board") approved and granted 1,475,000 stock options to the directors, officers, employees and consultants. Each option entitles its holder to acquire one common share of the Company at $0.50 per common share. These options are vested over an 18 month period varying between January 15, 2004 and September 29, 2006 and expire between January 15, 2009 and June 29, 2009. In 2004 the Company recorded $430,744 (2003 - $106,648) of stock based compensation expense for the stock options granted.

	Shares	Weighted Average Exercise Price
Options outstanding as at November 30, 2002	5,843,500	$0.26
Granted	1,625,000	$0.28
Exercised	(1,060,000)	$0.26
Expired	(253,500)	$0.30
Options outstanding as at November 30, 2003	6,155,000	$0.27
Granted	1,475,000	$0.50
Exercised	(1,015,000)	$0.29
Expired	(810,000)	$0.31
Options outstanding as at November 30, 2004	5,805,000	$0.32
2004 options exercisable	5,323,333	$0.30
2003 options exercisable	5,132,559	$0.26

	2004	2003
Weighted average remaining contractual life	2.68 years	2.47 years
Weighted average fair value of options granted during the year	$0.32	$0.19

For disclosure purposes, the fair value of each option granted to an employee was estimated as of the date of grant using the *Black-Scholes option pricing model* with the following assumptions:

	2004	2003
Risk-free interest rate	3.3%	5.5%
Dividend yield	0%	0%
Volatility	58%	107%
Approximate expected lives	5 years	5 years

8. Stock Options (continued)

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.

Based on the computed option values and the number of the options issued, had the Company followed the fair value method of accounting for stock options granted to its employees and directors between January 1, 2000 and November 30, 2003 using the Black-Scholes Option Pricing Model, the Company would have recognized additional compensation expenses of $29,997 and $237,850 in 2004 and 2003, respectively. Pro-forma loss and loss per share information determined under the fair value method of accounting are as follows:

	2004	2003
Net (loss) for the year:		
-as reported	$(1,244,264)	$ (954,129)
-pro-forma	$(1,274,261)	$(1,191,979)
Basic and diluted (loss) per share:		
-as reported	$(0.02)	$ (0.02)
-pro-forma	$(0.02)	$ (0.02)

9. Related Party Transactions

(a) During the year, the Company was billed $97,993 (2003 - $106,100) by a director for technical and professional services. As at November 30, 2004 $3,688 (2003 – $58,100) of these billings remain unpaid and are included in accounts payable.

(b) See Note 14(b).

10. Income Taxes

A reconciliation of the statutory tax rate to the effective tax rate for the Company is as follows:

	2004	2003
Statutory income tax rate	(38.0%)	(37.6%)
Tax loss not benefited	38.0%	37.6%
Effective tax rate	-	-

As at November 30, 2004, the Company has non-capital losses, cumulative exploration, development and depletion expenses and undepreciated capital costs of approximately $1,437,000, $10,110,000 and $707,000, respectively, carried forward for tax purposes and are available to reduce taxable income of future years. The non-capital losses will expire commencing in 2005 to 2014 if not utilized. The cumulative exploration and development expenses and undepreciated capital costs can be carried forward indefinitely.

11. 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 years ended November 30, 2004 and 2003.

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

	2004	2003
Canada	$ 9,999,416	$ 8,419,232
United States	917,915	907,030
	$ 10,917,331	$ 9,326,262

12. Part XII.6 Tax Expense

During 2004, the Company incurred a tax expense on the monthly unspent balance of flow-through funds from the December, 2003 private placement. This Part XII.6 tax expense was calculated by multiplying the unspent CEE at the end of each month (starting with February, 2004) by the prescribed interest rate (divided by 12) set by Canada Revenue Agency. This prescribed interest rate between March 1 and May 31, 2004 was 5%. All the flow through funds were spent by May 31, 2004.

13. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matter of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, marketable securities, sundry receivable, and accounts payable and accrued liabilities and mortgage loans approximate their fair value because of the short-term nature of these instruments.

14. Commitments

(a) During 2002, the Company entered into a three year operating lease agreement with respect to its office premises. The minimum payment required under the agreement is $5,303. See Subsequent Events Note 15(c).

(b) 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 November 30, 2004. If the conditions precedent had been satisfied at November 30, 2004, the amount owing under the agreement would be $176,358.

15. Subsequent Events

Subsequent to November 30, 2004, the following occurred:

(a) 80,000 stock options expired unexercised;

(b) the Company completed a private placement of 1,150,000 flow through shares at $0.20 per share for gross proceeds of $230,000. The proceeds from these flow through shares must be spent on Canadian Exploration Expenses (“CEE”);

(c) the Company has not signed a new operating lease agreement on its office premises. The Company is now renting on a month to month basis.

16. Comparative Figures

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