

# **Patrician Diamonds Inc.**

(a Development Stage Company)

## **Unaudited Consolidated Financial Statements**

March 31, 2005

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Patrician Diamonds Inc.**  
(a Development Stage Company)  
Unaudited Consolidated Balance Sheets

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	As at March 31, 2005 \$	As at December 31, 2004 \$
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	737,320	849,040
Amounts receivable	45,130	67,790
Prepaid exploration costs and expenses	11,567	18,161
	<hr/>	<hr/>
	794,017	934,991
<b>Mineral exploration properties</b>	624,208	584,208
<b>Deferred exploration expenditures</b>	1,038,867	971,419
	<hr/>	<hr/>
	2,457,092	2,490,618
	<hr/>	<hr/>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	41,040	34,135
	<hr/>	<hr/>
<b>Shareholders' equity</b>		
Capital stock	9,543,993	9,543,993
Warrants	375,445	375,445
Stock options	163,609	147,057
Deficit	(7,666,995)	(7,610,012)
	<hr/>	<hr/>
	2,416,052	2,456,483
	<hr/>	<hr/>
	2,457,092	2,490,618
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Approved by the Board of Directors:

signed "Robin Dow"  
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Robin Dow, Director

signed "James Franklin"  
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James Franklin, Director

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

## Patrician Diamonds Inc.

(a Development Stage Company)

### Unaudited Consolidated Statements of Operations and Deficit

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	Three Months Ended March 31,	
	2005	2004
	\$	\$
<b>Expenses</b>		
Management fees	12,000	32,200
Promotion	21,376	12,184
Regulatory authority and transfer agent fees	4,700	11,126
Professional fees	5,807	30,056
General and administrative	16,939	9,896
	<hr/>	<hr/>
	(60,822)	(95,462)
Interest income	3,839	7
	<hr/>	<hr/>
<b>Net loss for the period</b>	(56,983)	(95,455)
<b>Deficit - Beginning of period</b>	<hr/>	<hr/>
	(7,610,012)	(7,571,775)
<b>Deficit - End of period</b>	<hr/>	<hr/>
	(7,666,995)	(7,667,230)
Loss per common share:		
Basic and diluted	(0.00)	(0.01)
Weighted average number of common shares outstanding:		
Basic and diluted	29,173,248	15,581,026

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

## Patrician Diamonds Inc.

(a Development Stage Company)

### Unaudited Consolidated Statements of Cash Flows

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	<u>Three Months Ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(56,983)	(95,455)
Items not affecting cash:		
Stock based compensation expenses	4,347	29,000
Change in non-cash working capital items:		
Amounts receivable	22,660	6,104
Prepaid exploration costs and expenses	6,594	(15,156)
Accounts payable and accrued liabilities	6,905	17,292
	<u>(16,477)</u>	<u>(58,215)</u>
<b>Investing activities</b>		
Mineral exploration property costs	(40,000)	-
Deferred exploration expenditures	(55,243)	(80,411)
	<u>(95,243)</u>	<u>(80,411)</u>
<b>Financing activities</b>		
Issuance of common shares and warrants for cash	-	286,500
Share issue costs	-	(7,875)
	<u>-</u>	<u>278,625</u>
<b>Net change in cash and cash equivalents</b>	(111,720)	139,999
<b>Cash and cash equivalents - Beginning of period</b>	<u>849,040</u>	<u>227,736</u>
<b>Cash and cash equivalents - End of period</b>	<u>737,320</u>	<u>367,735</u>

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

## **Patrician Diamonds Inc.**

(a Development Stage Company)

Notes to Unaudited Consolidated Financial Statements

March 31, 2005

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### **1. Nature of operations and going concern**

Patrician Diamonds Inc. (the "Company") is a development stage junior mining company engaged in the identification, acquisition, evaluation and exploration of mineral properties in Canada. The Company has not determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of amounts recorded for mineral exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and attaining future profitable production from the properties or sufficient proceeds from disposition of the properties.

The financial statements of the Company have been prepared on the basis that the Company will continue as a going concern, which presumes that it will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

### **2. Basis of presentation**

Patrician Diamonds Inc. was incorporated on January 28, 1994 under the laws of the Province of Ontario. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary 90828971 Quebec Inc. Patrician Diamonds Inc. and its wholly-owned subsidiary are collectively referred to herein as the "Company". During 2000, the Company incorporated a wholly-owned subsidiary Phoenix Matachewan Mines Inc. ("Phoenix") and transferred all its mining assets to Phoenix. During the first quarter of 2003, the Company distributed its interest in Phoenix to the shareholders of the Company by way of a dividend.

These unaudited interim consolidated financial statements have been prepared by Company management in accordance with Canadian generally accepted accounting principles on a basis consistent with those outlined in the Company's audited financial statements for the year ended December 31, 2004. These interim consolidated financial statements do not include all of the information and disclosures required by Canadian generally accepted accounting principles for annual audited financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the most recent annual financial statements of the Company.

In the opinion of management, all adjustments considered necessary for the fair presentation of the results for the interim periods presented have been reflected in these consolidated financial statements.

### **3. Significant accounting policies**

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### **Cash and cash equivalents**

Cash and cash equivalents include investments which have a term to maturity at the time of purchase of ninety days or less and which are readily convertible into cash.

#### **Mineral exploration property and deferred exploration expenditures**

Acquisition costs of mineral exploration properties together with direct exploration and development expenditures are capitalized. When production is attained, these costs will be amortized. If properties are abandoned, sold or considered to be impaired in value, the costs of the properties and related deferred expenditures will be written down to their estimated fair value at that time. Expenditures of a general reconnaissance nature are expensed to general exploration in the statement of operations.

#### **Stock-based compensation**

The Company follows the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. The section defines recognition, measurement and disclosure standards for stock-based compensation to employees and non-employees. All stock-based payments made to employees and non-employees are accounted for in the financial statements. Compensation cost is measured at the grant date based on the fair value of the reward and compensation expense is recognized over the related service period.

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### Flow-through shares

The Company has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. Recognition of the foregone tax benefit is recorded at the time of the renouncement provided there is reasonable assurance that the expenditures will be incurred.

### Foreign currency translation

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated using the exchange rate in effect at the balance sheet date. Expenses are translated at exchange rates in effect at the date the transaction is entered into. Translation gains or losses are included in the determination of income or loss in the statement of operations in the period in which they arise.

### Income taxes

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not that such assets will not be realized.

### Basic and diluted loss per common share

Basic loss per common share is calculated based upon the weighted average number of common shares outstanding during the year. The diluted loss per common share, which is calculated using the treasury stock method, is equal to the basic loss per common share due to the anti-dilutive effect of stock options and share purchase warrants outstanding.

## 4. Mineral exploration properties and deferred exploration expenditures

For the three month period ended March 31, 2005 activity with respect to mineral exploration properties and deferred exploration expenditures is as follows:

	Borden	Blackwater	Yukon	Dorset and Sahtu	Seal River	Total
<b>Mineral exploration properties:</b>						
Balance, December 31, 2004	\$ 198,139	\$ 210,174	\$ 90,774	\$ 85,121	\$ -	\$ 584,208
Property acquisition	-	-	-	-	40,000	40,000
Balance, March 31, 2005	\$ 198,139	\$ 210,174	\$ 90,774	\$ 85,121	\$ 40,000	\$ 624,208
<b>Deferred exploration expenditures:</b>						
Balance, December 31, 2004	\$ 210,774	\$ 420,007	\$ 340,638	\$ -	\$ -	\$ 971,419
Geology	14,155	2,574	3,839	2,265	2,622	25,455
Geophysical	-	1,662	-	-	-	1,662
Assaying	13,986	-	26,345	-	-	40,331
Balance, December 31, 2004	\$ 238,915	\$ 424,243	\$ 370,822	\$ 2,265	\$ 2,622	\$ 1,038,867

### Borden

In May 2004, the Company initiated a staking program on its Borden Peninsula, Baffin Island project which was ongoing into July 2004. On October 4, 2004 the Company purchased additional ground on Baffin Island of 813.5 acres from Mountain Province Diamonds Inc. ("MPV"). MPV was provided 325,000 common shares of the Company valued at \$39,000 and a 1% net smelter royalty. The Company also undertook to honour a 1% net smelter royalty in favour of the Company's President and director and an officer, which can be purchased for \$1,000,000 and which were already in place with MPV on the claim.

During the three month period ended March 31, 2005, geology and assaying costs relate to analysis of samples obtained during the 2004 fieldwork season.

### Blackwater

In May 2004, the Company conducted a geophysical airborne high-resolution survey totaling 1,315 line kilometers over part of its Blackwater Lake project.

On November 7, 2004, the Company announced that it had signed an option agreement to purchase a 100% interest in eight claims, nominally 18,955 acres, in the Blackwater Lake area, adjacent to the Company's current claims. The purchase price is 300,000 common shares at a price per share of \$0.10, with 100,000 common shares provided on signing and the balance of 200,000 shares due in equal annual installments on the anniversary date of the option agreement to November 7, 2006.

## Patrician Diamonds Inc.

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Notes to Unaudited Consolidated Financial Statements

March 31, 2005

### Yukon

During the three month period ended March 31, 2005, the Company incurred geology and assaying costs related to its Yukon project. These costs relate to analysis of samples obtained during the 2004 sampling campaign during July and August of 2004.

During July of 2004, the Company received \$83,186 of Yukon mining tax credits which were earned as a result of qualifying exploration expenditures on the Yukon project during 2003. Additionally, the Company has recorded Yukon mining tax credits of \$25,000 relating to 2004 activities. These tax credits offset exploration spending during 2004.

### Dorset and Sahtu

During December 2004, the Company applied for prospecting permits on its Dorset and Sahtu projects. The Dorset project consists of 490,000 acres on the Foxe Peninsula of southern Baffin Island, Nunavut. The Sahtu project consists of 350,000 acres west of Great Bear Lake in the Sahtu region of the Northwest Territories.

### Seal River

During March of 2005, the Company entered into an agreement with Indicator Explorations Ltd., a private Manitoba based company, to acquire a 100% undivided interest in mineral exploration licenses 155B and 191B located in the Seal River area of northern Manitoba. Under the terms of the agreement, the Company can acquire a 100% interest in the properties by expending a total of \$650,000 on exploration and paying Indicator Explorations Ltd. a total of \$560,000 before March 15, 2009. The agreement required a \$40,000 cash payment upon signing the agreement which was provided in March of 2005 and requires a minimum of \$50,000 in exploration spending prior to March 15, 2006.

## 5. Capital stock

### Authorized

The Company is authorized to issue an unlimited number of common shares.

### Issued

During the three month period ended March 31, 2005 and the year ended December 31, 2004, changes in issued share capital were as follows:

	Three months ended March 31, 2005		Year ended December 31, 2004	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of period	29,173,248	\$ 9,543,993	14,743,248	\$ 8,583,841
Common shares issued for cash, net of issue costs	-	-	13,420,000	1,177,902
Common shares issued for services	-	-	555,000	59,250
Common shares issued for property	-	-	425,000	49,000
Exercise of compensation options	-	-	30,000	3,000
Tax effect of flow-through shares	-	-	-	(329,000)
Balance, end of period	29,173,248	\$ 9,543,993	29,173,248	\$ 9,543,993

During March 2004, the Company sold, by way of a private placement, 725,000 common share units at \$0.20 per unit and 560,000 flow-through units at \$0.25 per unit for gross proceeds of \$285,000. Each common share unit consisted of one common share and one common share purchase warrant exercisable at \$0.25 per share until March 2006. A value of \$55,100 was allocated to these warrants. Each flow-through unit consisted of one flow-through common share and one common share purchase warrant exercisable into one common share or one flow-through common share, at the holders' option, at a price of \$0.30 per share. A value of \$53,200 was allocated to these warrants.

During August and September 2004, the Company sold, by way of private placement, a total of 1,560,000 flow-through units at \$0.15 per unit for gross proceeds of \$234,000. Each flow-through unit consisted of one flow-through common share and one-half common share purchase warrant. Each whole purchase warrant is exercisable into one common share at a price of \$0.20 per share in the first year and at \$0.30 per share in the second year. In addition, the Company issued 80,000 units and 56,000 compensation options to agents, in connection with this private placement. A value of \$39,360 was allocated to these warrants.

During September 2004, the Company sold, by way of private placement, a total of 4,500,000 flow-through common shares at \$0.12 per share for gross proceeds of \$540,000. In connection with this private placement, the Company issued a total of 450,000 compensation options to agents with an exercise price of \$0.12 per share and a two year expiry.

On September 30, 2004, the Company sold, by way of private placement, 995,000 common share units at \$0.12 per unit for gross proceeds of \$113,773. Each common share unit consisted of one common share and one common share purchase warrant exercisable at \$0.20 per share with a two year expiry. A value of \$42,785 was allocated to these warrants. In addition, the Company issued 99,500 compensation options for units, to the agent, in connection with this private placement.

## Patrician Diamonds Inc.

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### Notes to Unaudited Consolidated Financial Statements

March 31, 2005

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In November 2004, the Company sold, by way of private placement, 5,000,000 common share units at \$0.10 per unit for gross proceeds of \$500,000. Each common share unit consisted of one common share and one common share purchase warrant exercisable at \$0.15 per share with a two year expiry. A value of \$185,000 was allocated to these warrants.

In October 2004, the Company issued 325,000 common shares valued at \$39,000 in connection with a payment for property related to its Borden project. On November 7, 2004 the Company announced that it had signed an option agreement to purchase eight claims, nominally 18,955 acres, in the Blackwater Lake area, adjacent to the Company's current claims. The purchase price is 300,000 common shares at a price per share of \$0.10, with 100,000 common shares due on signing and the balance of 200,000 shares due in equal annual installments on the anniversary date of the option agreement to November 7, 2006.

Under contracts with service providers, the Company provided a total of 555,000 common shares for services during 2004. These common shares are recorded in capital stock ratably over the vesting period as service is provided. For the three month period ended March 31, 2005 and as at March 31, 2005, the Company has no further contracts in place with contractors requiring the issuance of common shares.

As at December 31, 2004, the Company had renounced flow-through share tax benefits relating to a total of \$914,000 raised through the issuance of flow-through common shares during the year ended December 31, 2004. The tax effect of \$329,000 has been recorded as a reduction of capital stock.

#### Warrants

As at March 31, 2005, the Company had a total of 8,400,000 warrants outstanding as follows:

Number	Exercise Price	Expiry
5,000,000	\$ 0.15	October 2006
995,000	0.20	October 2006
1,025,000	0.25	March 2006
560,000	0.30	March 2006
820,000	0.20 / 0.30	September 2005 / 2006
<u>8,400,000</u>		

The fair value of warrants issued during the year ended December 31, 2004 has been estimated using the Black-Scholes option pricing model and this value has been presented as a separate component of shareholders' equity. The total value allocated to warrants is \$375,445. The assumptions used for the valuation of warrants are as follows: dividend yield of nil, expected volatility 130%, risk-free interest rate 4% and an expected life of the warrants of two years.

During the three month period ended March 31, 2005, 650,000 warrants expired unexercised. During the year ended December 31, 2004, a total of 2,669,000 warrants expired unexercised.

#### Compensation options and compensation option warrants

The Company provides compensation options to agents who refer investors to the Company. Compensation options are exercisable into equity instruments having the same attributes as those purchased by the referred investor. As at March 31, 2005, the Company had outstanding a total of 605,500 compensation options as follows:

Number	Exercise Price	Expiry
250,000	\$ 0.12	September 2005
200,000	0.15	October 2005
99,500	0.12	October 2006
56,000	0.15	October 2006
<u>605,500</u>		

Compensation options are exercisable for common shares or units comprised of a common share and either a whole or half common share purchase warrant. Potential warrants issuable upon exercise of compensation options above are as follows: 127,500 warrants exercisable at \$0.20 expiring October 2006.

The fair value of compensation options issued during the period ended December 31, 2004 has been estimated using the Black-Scholes option pricing model and this value has been presented as a separate component of shareholders' equity and recorded as a share issue cost. The total value allocated to compensation options is \$47,713. The assumptions used for the valuation of compensation options are as follows: dividend yield of nil, expected volatility 130%, risk-free interest rate of 4% and an expected life of the options of two years.

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(a Development Stage Company)

### Notes to Unaudited Consolidated Financial Statements

March 31, 2005

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#### Stock options

Under the Company's stock option plan all options are granted at fair market value. Options vest as follows: 10% at the date of grant, 15% quarterly over the eighteen month period following the date of grant. The expiry of options is determined by the Board of Directors and is typically three or five years.

As at March 31, 2005, the Company had 3,180,000 stock options outstanding. For the three month period ended March 31, 2005 and for the year ended December 31, 2004 stock option activity is summarized as follows:

	Number	Weighted- average exercise price	Expiry
<b>Outstanding, December 31, 2003</b>	1,875,000	\$ 0.22	July 2005 to June 2008
Granted during 2004	1,495,000	0.12	January 2007 to November 2009
Expired during 2004	<u>(205,000)</u>	0.19	April 2006 to January 2007
<b>Outstanding, December 31, 2004</b>	3,165,000	0.17	July 2005 to July 2009
Granted during period	25,000	0.10	February 2010
Expired during period	<u>(10,000)</u>	0.10	November 2009
<b>Outstanding, March 31, 2005</b>	<u>3,180,000</u>	0.17	July 2005 to February 2010

On May 20, 2005, shareholders of the Company approved an increase in the number of common shares available for grant of options from 3,200,000 to 5,800,000.

#### Stock-based compensation

As a result of stock options granted during the three month period ended March 31, 2005 and as a result of options granted during prior periods which continue to vest, the Company recognized a total of \$16,552 relating to stock-based compensation during the three month period ended March 31, 2005. This amount is included in shareholders' equity and is recorded as an expense or as deferred exploration expenditures. This value was determined using the Black-Scholes option pricing model with the following assumptions: volatility of 126% to 130%, dividend yield of nil, risk free interest rate of 4.0% and expected life of three years.

Fair values computed using the Black-Scholes model are estimates only of the potential value of the individual stock options. The Company does not make any cash payments in connection with stock option transactions.

#### 6. Income taxes

As at December 31, 2004, the Company had loss carryforward balances totaling \$1,932,000 which are available to offset future years taxable income. These carryforward balances expire from 2005 to 2011.

#### 7. Related party transactions

The Company has a management contract with Cornerstone Capital Corporation, a company controlled by the Chairman and CEO of the Company whereby the Company may pay for rent, office services and related expenses. The Company has a management contract with the Chairman and CEO of the Company whereby the Company may pay up to \$3,500 per month in cash, if and when available, for management services. Additionally, the Company has service contracts with certain officers and directors under which it provides common shares and cash as consideration for service provided.

For the three month period ended March 31, 2005, the Company paid Cornerstone Capital Corporation cash of \$1,500 (2004 - \$4,500) and the Chairman and CEO was provided \$10,500 (2003 - \$10,500). During 2004, the Chairman and CEO was provided a total of 280,000 common shares valued at \$28,000, a director was provided 150,000 common shares valued at \$15,000 and an officer was provided 50,000 common shares valued at \$5,000.

On November 7, 2004 the Company signed an option agreement with an officer of the Company to purchase a 100% interest in eight claims nominally 18,955 acres, in the Blackwater Lake area, adjacent to the Company's current claims. The purchase price was 300,000 common shares at a price per share of \$0.10, with 100,000 common shares provided on signing and the balance of 200,000 shares due in equal annual installments on the anniversary date of the option agreement to November 7, 2006.

On May 24, 2005, the Company announced it had entered into a letter of intent with Ur-Energy Inc., a private uranium exploration company that is a related company, as further described in note 10. Each of the directors and officers of the Company also act as directors and / or officers of Ur-Energy Inc. The final agreement is subject to a fairness opinion prepared by a third party as well as TSX-Venture Exchange and board approval.

These transactions have taken place at the exchange amount which is the amount agreed to by each respective party.

## **Patrician Diamonds Inc.**

(a Development Stage Company)

Notes to Unaudited Consolidated Financial Statements

**March 31, 2005**

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### **8. Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

### **9. Segmented information**

The Company's operations comprise one reportable segment being the exploration of mineral resource properties in Canada.

### **10. Dismal Lake property and Ur-Energy Inc. joint venture agreement**

During late April of 2005, the Company staked approximately 18,000 acres at Dismal Lake, Nunavut. On May 24, 2005, the Company announced it had entered into a letter of intent with Ur-Energy Inc., a private uranium exploration company that is a related company. Under the terms of the letter of intent, Ur-Energy Inc. can earn an 80% interest in the Company's 18,000 acres at Dismal Lake, Nunavut, by paying to the Company \$50,000 to cover staking costs, 400,000 common shares of Ur-Energy Inc. (100,000 common shares upon signing a formal agreement, 100,000 common shares on the first anniversary date and 200,000 common shares on the second anniversary date) and by spending \$1 million in exploration over three years.

Additionally, under the terms of the agreement, the Company obtains the right to potential diamond opportunities on Ur-Energy Inc.'s 130,000 acre Dismal Lake claim groups. The Company may earn up to an 80% interest in the diamond potential of those claims by spending \$1 million on exploration over three years.

The final agreement is subject to a fairness opinion prepared by a third party as well as TSX-Venture Exchange and board approval.