

Grizzly Diamonds Ltd.

Financial Statements
(Unaudited)
April 30, 2005

To the Shareholders of Grizzly Diamonds Ltd.:

The interim balance sheet of Grizzly Diamonds Ltd. as at April 30, 2005, and the interim statements of operations and retained earnings and cash flows for the periods then ended have been compiled by management.

No audit or review of this information has been performed by the company's auditors.

Grizzly Diamonds Ltd.

Balance Sheets

	<i>(unaudited)</i> April 30, 2005 \$	<i>(audited)</i> July 31, 2004 \$
Assets		
Current assets		
Cash and cash equivalents	753,059	82,038
Accounts receivable	25,843	9,619
	<hr/>	<hr/>
	778,902	91,657
Deferred share issuance costs	-	40,500
Mineral properties (Note 4)	488,702	126,141
	<hr/>	<hr/>
	1,267,604	258,298
	<hr/>	<hr/>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	97,698	-
	<hr/>	<hr/>
Shareholders' equity		
Share capital (Note 5)	1,072,261	268,500
Contributed surplus	94,000	-
Retained earnings (deficit)	3,645	(10,202)
	<hr/>	<hr/>
	1,169,906	258,298
	<hr/>	<hr/>
	1,267,604	258,298
	<hr/>	<hr/>

Approved by the Board of Directors

"Brian Testo"

"Pamela Strand"

Director

Director

Grizzly Diamonds Ltd.

Statements of Operations and Retained Earnings

	<i>(unaudited)</i> Three months ended April 30, 2005 \$	<i>(unaudited)</i> Nine months ended April 30, 2005 \$
Revenue		
Interest	5,390	5,390
	<hr/>	<hr/>
Expenses		
General and administrative	18,674	41,388
Consulting fees	8,300	22,550
Professional fees	12,544	16,854
	<hr/>	<hr/>
	39,518	80,792
	<hr/>	<hr/>
	(34,128)	(75,402)
	<hr/>	<hr/>
Other income (expenses)		
Share based compensation	-	(59,000)
Write-down of mineral properties	(16,251)	(16,251)
Future income tax recovery	-	164,500
	<hr/>	<hr/>
	(16,251)	89,249
	<hr/>	<hr/>
Net income (loss) for the period	(50,379)	13,847
	<hr/>	<hr/>
Retained earnings (deficit) – beginning of period	54,024	(10,202)
	<hr/>	<hr/>
Retained earnings – end of period	3,645	3,645
	<hr/>	<hr/>
Basic and diluted net income (loss) per common share	(0.005)	0.002
	<hr/>	<hr/>
Weighted average number of common shares outstanding	9,899,206	7,653,567
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Grizzly Diamonds Ltd.

Statements of Cash Flows

	<i>(unaudited)</i> Three months ended April 30, 2005 \$	<i>(unaudited)</i> Nine months ended April 30, 2005 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	(50,379)	13,847
Items not affecting cash		
Share-based compensation	-	59,000
Write down of mineral properties	16,251	16,251
Future income taxes	-	(164,500)
	<u>(34,128)</u>	<u>(75,402)</u>
Net change in non-cash working capital items	63,162	81,474
	<u>29,034</u>	<u>6,072</u>
Investing activities		
Mineral properties		
Acquisition costs	(118,562)	(124,562)
Exploration costs	(157,008)	(159,250)
	<u>(275,570)</u>	<u>(283,812)</u>
Financing activities		
Issuance of shares	-	1,200,000
Share issuance costs	-	(251,239)
	<u>-</u>	<u>948,761</u>
Increase (decrease) in cash and cash equivalents	(246,536)	671,021
Cash and cash equivalents – beginning of period	999,595	82,038
Cash and cash equivalents – end of period	753,059	753,059

Grizzly Diamonds Ltd.

Notes to the Financial Statements

(Unaudited)

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1 Nature of Operations

Grizzly Diamonds Ltd. (the "Company" or "Grizzly") was incorporated in Alberta on May 31, 2002 and commenced operations on January 1, 2004.

Grizzly is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets should the company be unable to continue as a going concern.

2 Basis of presentation

These unaudited interim financial statements should be read in conjunction with the Company's audited financial statements for the seven months ended July 31, 2004 and the notes thereto. These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles by the Company and follow the same accounting policies and method of application as the Company's financial statements for the period ended July 31, 2004.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in Canada have been omitted. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of the interim periods have been included.

3 Change in Accounting Policy

Effective August 1, 2004, the Company retroactively adopted the new Canadian Institute of Chartered Accounts' Handbook Section 3110 "Asset Retirement Obligations." This standard requires liability recognition for retirement obligations associated with long-lived assets, which includes abandonment of mineral properties and returning property to its original condition.

The standard requires the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the company's credit adjusted risk free rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties and deferred exploration costs. This change in accounting policy has no effect on the company's prior or current financial statements.

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4 Mineral Properties

				April 30, 2005	July 31, 2004
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Alberta					
White Bear	90.0	9,500	152,787	162,287	113,141
Smoky the Bear	90.0	5,500	47,898	53,398	5,500
Grand Cub Aidan	90.0	8,000	1,365	9,365	7,500
Legend	*	-	24,453	24,453	-
New Buffalo Head Hills	90.0	51,833	-	51,833	-
Call of the Wild	100.0	10,000	-	10,000	-
British Columbia					
Goat Mine	100.0	45,380	2,163	47,543	-
Peak	100.0	52,849	14,970	67,819	-
French	100.0	35,000	2,955	37,955	-
Silver Bear	100.0	21,500	2,549	24,049	-
		239,562	249,140	488,702	126,141

* See Legend Property note below.

Changes in contractual options and commitments

a) Legend Property

On February 24, 2005, the Company signed an option agreement to acquire an undivided 60% mineral interest in the Legend Property and an undivided 51% mineral interest in the Little Legend Property, both located in the Birch Mountains of Northeast Alberta. In order to acquire these interests, Grizzly must complete exploration expenditures of \$100,000 on the property by August 24, 2006.

b) New Buffalo Head Hills Property

On April 27, 2005 the Company signed a purchase agreement with Grizzly Gold Inc. to acquire an undivided 90% interest in a number of mineral claims situated in the Buffalo Head Hills area of Northern Alberta called the New Buffalo Head Hills Property. In order to acquire the interest in the New Buffalo Head Hills Property, the Company must reimburse Grizzly Gold Inc. for the staking costs of the property in the amount of \$51,833. In addition, the Company will have the right, for a period of sixty (60) days following completion of a positive feasibility study, to acquire up to an additional 5% interest in the New

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Buffalo Head Hills Property from Grizzly Gold Inc. upon payment of \$1,000,000 for each 1% interest to be acquired.

c) Call of the Wild Property

On April 27, 2005 the Company signed a purchase agreement with Grizzly Gold Inc. to acquire a 100% interest in mineral claims in the Call of the Wild Property located in the Calling Lake area of north-central Alberta. In order to acquire the interest in the Call of the Wild Property, the Company must reimburse Grizzly Gold Inc. for staking costs of the property in the amount of \$10,000.

d) Goat Mine Property

On January 19, 2005, the Company signed an option agreement with Rick Kasum ("Kasum") to acquire 100% mineral interest in the Goat Mine Property located 34 km northwest of the town of Stewart, BC. In order to acquire 100% interest in the property, Grizzly must complete the following:

- cash payment of \$5,000 and issue 50,000 common shares (completed in February 2005)
- cash payment of \$5,000 and issue 50,000 common shares by May 1, 2005 (completed in April 2005)
- cash payment of \$5,000, \$25,000 in exploration, and issue 50,000 common shares by the first anniversary date of the agreement
- cash payment of \$25,000, \$100,000 in exploration expenditures, and issue 100,000 common shares prior to the two year anniversary date of the agreement
- \$250,000 in exploration expenditures prior to the three year anniversary date of the agreement

Kasum will retain a one and a half percent (1.5%) industry standard net smelter royalty (NSR) on the Property. Grizzly may purchase a one percent NSR from Kasum for the sum of \$500,000.

e) Peak Property

On February 4, 2005, the Company signed an option agreement to acquire a 100% mineral interest in the Peak Property located 65 km northeast of the town of Smithers, BC. In order to acquire a 100% interest in the property, Grizzly must make a combined payment to Valley Gold Inc. ("Valley") and an individual in the sum of \$20,000 cash (completed), issue 100,000 common shares to Matador Exploration Inc. (completed), complete sufficient exploration expenditures on the property to satisfy assessment requirements for the next three years, and pay rental fees on the property for the next three years. Valley and an individual will retain a combined three percent (3%) industry standard net smelter royalty (NSR) on the property. Grizzly has a first right of refusal to purchase the NSR.

f) French Property

On February 8, 2005, the Company signed an option agreement to acquire a 100% mineral interest in the French Property located 65 km northeast of the town of Smithers, BC. In order to acquire a 100% interest in the property, Grizzly must make a combined payment to Valley and an individual in the sum of \$20,000 cash (completed), issue 50,000 common shares to Matador Exploration Inc. (completed), complete sufficient exploration expenditures on the property to satisfy assessment requirements for the next three years, and pay rental fees on the property for the next three years. Valley and an individual will retain a

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combined two percent (2%) industry standard net smelter royalty (NSR) on the property. Grizzly has a first right of refusal to purchase the NSR.

g) Silver Bear Property

On February 14, 2005, the Company signed an option agreement to acquire a 100% mineral interest in the Silver Bear Property located approximately 5 km east of Slocan Lake, BC. In order to acquire 100% interest in the property, Grizzly must make a combined payment to two individuals in the sum of \$6,500 cash (completed), issue 200,000 common shares over three years with the initial 50,000 shares due upon signing the option agreement (completed), complete sufficient exploration expenditures on the property to satisfy assessment requirements for the next three years, and pay rental fees on the property for the next three years. The two individuals will retain a combined three percent (3%) industry standard net smelter royalty (NSR) on the property. Grizzly has the right to purchase two-thirds of the NSR for \$1,000,000.

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5 Share Capital

a) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

b) Common shares issued:

	Number outstanding #	Amount \$
Balance – August 1, 2004	5,710,001	268,500
2nd quarter activity		
Shares issued for cash	4,000,000	1,200,000
Share issuance costs	-	(326,739)
Future income taxes	-	(164,500)
3rd quarter activity		
Shares issued for property acquisition	300,000	95,000
Balance – April 30, 2005	<u>10,010,001</u>	<u>1,072,261</u>

On December 24, 2004, the Company closed its initial public offering and issued 1,349,900 flow-through common shares and 2,650,100 units ("Units") at a price of \$0.30 per Unit or common share for gross proceeds of \$1,200,000. Each Unit consisted of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant is exercisable at \$0.50 for a period of two years after closing. The Company will be required to incur \$404,970 (\$159,250.39 has been incurred as of April 30, 2005) of qualifying expenditures to be renounced to the holders of the 1,349,900 flow-through shares. In connection with the offering, agents received a cash commission of \$96,000 and 360,000 warrants at an exercise price of \$0.30 per common share, which expire in December 2006. Related to this, the Company has recorded \$35,000 in share based compensation as a share issue cost.

During the third quarter, the Company issued 300,000 common shares at a deemed value of \$95,000 in consideration for property acquisitions.

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Share options

The Company has a share option plan for the benefit of directors, management and certain consultants of the Company. Under the plan, the Company may grant options for up to 10% of the issued common shares. An option's maximum term is five years. Options are granted at various points throughout the year.

The following table summarizes activity related to share options:

	Number #	Weighted average exercise price \$
Balance – August 1, 2004	-	-
2nd quarter activity		
Granted	725,000	0.35
Balance – April 30, 2005	725,000	0.35

The following table summarizes information about the Company's share options outstanding as at April 30, 2005:

Exercise Price \$	Number of Options Outstanding #	Weighted average remaining contractual life Years
0.35	725,000	4.69
	725,000	4.69

All of the Company's outstanding share options as at April 30, 2005 are exercisable.

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The Company has recorded share-based compensation expense and contributed surplus in the amount of \$59,000 in the statement of operations and retained earnings for options granted in the second quarter. The share-based compensation expense has been determined based on the fair value of 725,000 options at the grant date (\$0.081 per option). The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.5%
Expected volatility	81.0%
Annual dividend yield	0.0%
Expected life of options	1 year

Warrants

	For the period ended April 30, 2005	
	Number #	Weighted average exercise price \$
Balance – August 1, 2004	-	-
2nd quarter activity		
Issued	1,685,050	0.46
Balance – April 30, 2005	1,685,050	0.46

The Company has recognized share-based compensation in the amount of \$35,000 which has been recorded as share issuance cost and contributed surplus relating to warrants issued to agents on the Company's initial public offering on December 24, 2004. The fair value of \$0.117 per warrant granted was estimated on the date of grant, using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.5%
Expected volatility	81.0%
Annual dividend yield	0.0%
Expected life of warrants	1 year

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6 Related Party Transactions

Consulting fees of \$8,300 were paid to an officer of the company.

Consulting fees of \$500 were paid to Grizzly Gold Inc., a company which is controlled by the President and CEO of the Company, for administrative services.

The above two transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The acquisition of the New Buffalo Head Hills Property described in note 4 (b) was completed with Grizzly Gold Inc., a company controlled by the President and CEO of Grizzly Diamonds Ltd. and this transaction was recorded at the carrying amount of \$51,833.

The acquisition of the Call of the Wild Property described above in note 4 (c) was completed with Grizzly Gold Inc., a company controlled by the President and CEO of Grizzly Diamonds Ltd. and this transaction was recorded at the carrying amount of \$10,000.