

# **Grizzly Diamonds Ltd.**

Financial Statements (Unaudited)  
**Three Months Ended October 31, 2005**

To the Shareholders of Grizzly Diamonds Ltd.:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 31, 2005, and the interim statements of loss and deficit and cash flows for the period 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

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	<i>(unaudited)</i> <b>October 31,</b> <b>2005</b> \$	<i>(audited)</i> July 31, 2005 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,692,022	635,947
Goods and services tax receivable	72,317	41,175
Accrued interest receivable	6,378	6,295
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	2,770,717	683,417
Mineral properties (Note 3)	965,058	573,265
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	3,735,775	1,256,682
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<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	428,940	166,149
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<b>Shareholders' Equity</b>		
Share capital (Note 4)	3,402,908	1,104,440
Contributed surplus	114,036	94,000
Deficit	(210,109)	(107,907)
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	3,306,835	1,090,533
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	3,735,775	1,256,682
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### Approved by the Board of Directors

“Brian Testo”

“Pamela Strand”

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Director

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Director

See accompanying notes to financial statements

# Grizzly Diamonds Ltd.

## Statements of Loss and Deficit

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	<i>(unaudited)</i> <b>Three months ended October 31, 2005</b> \$	<i>(unaudited)</i> Three months ended October 31, 2004 \$
<b>Revenue</b>		
Interest	3,684	-
<b>Expenses</b>		
General and administrative	34,675	6,568
Professional fees	7,666	-
Consulting fees	16,250	6,000
	<u>58,591</u>	<u>12,568</u>
	(54,907)	(12,568)
<b>Other expenses</b>		
Stock-based compensation	<u>(47,295)</u>	-
<b>Net loss for the period</b>	(102,202)	(12,568)
<b>Deficit – beginning of period</b>	<u>(107,907)</u>	<u>(10,202)</u>
<b>Deficit – end of period</b>	<u>(210,109)</u>	<u>(22,770)</u>
<b>Basic and diluted net loss per common share</b>	<u>(0.010)</u>	<u>(0.002)</u>
<b>Weighted average number of common shares outstanding</b>	<u>10,455,522</u>	<u>5,710,001</u>

See accompanying notes to financial statements

# Grizzly Diamonds Ltd.

## Statements of Cash Flows

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	<i>(unaudited)</i> <b>Three months ended October 31, 2005</b> \$	<i>(unaudited)</i> Three months ended October 31, 2004 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(102,202)	(12,568)
Items not affecting cash		
Stock-based compensation	47,295	-
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	(54,907)	(12,568)
Net change in non-cash working capital items	231,566	57,668
	<hr/>	<hr/>
	176,659	45,100
<b>Investing activities</b>		
Mineral properties		
Acquisition costs	(16,885)	(6,000)
Exploration costs	(374,908)	-
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	(391,793)	(6,000)
<b>Financing activities</b>		
Issuance of shares	2,342,011	-
Share issuance costs	(70,802)	(53,744)
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	2,271,209	(53,744)
<b>Increase (decrease) in cash and cash equivalents</b>	2,056,075	(14,644)
<b>Cash and cash equivalents – beginning of period</b>	635,947	82,038
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<b>Cash and cash equivalents – end of period</b>	2,692,022	67,394
<b>Cash and cash equivalents consist of:</b>		
Cash on deposit with bank	1,692,022	27,394
Guaranteed investment certificates	1,000,000	40,000
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	2,692,022	67,394
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See accompanying notes to financial statements

# **Grizzly Diamonds Ltd.**

Notes to Financial Statements

(Unaudited)

**Three Months Ended October 31, 2005**

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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 and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. To date, the Company has not earned significant revenues and is considered to be in the development 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 July 31, 2005 audited financial statements and the notes thereto. These unaudited 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 year ended July 31, 2005.

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.

# Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three Months Ended October 31, 2005

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## 3 Mineral properties

	<b>Ownership interest</b>	<b>July 31, 2005 balance</b>	<b>Acquisition costs</b>	<b>Exploration costs</b>	<b>October 31, 2005 balance</b>
	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Alberta</b>					
White Bear	90	161,666	-	1,218	162,884
Smoky the Bear	90	105,030	6,250	1,711	112,991
Grand Cub Aidan	90	9,365	-	50,769	60,134
Legend	51-60	26,088	-	3,657	29,745
New Buffalo Head Hills	90	31,833	-	-	31,833
Call of the Wild	100	10,400	8,750	6,047	25,197
Preston Upon the Wolverine	90	20,000	-	230,950	250,950
<b>British Columbia</b>					
Goat Mine	100	56,793	1,385	10,790	68,968
Peak	100	87,215	-	69,766	156,981
French	100	40,034	-	-	40,034
Silver Bear	100	24,841	500	-	25,341
		<u>573,265</u>	<u>16,885</u>	<u>374,908</u>	<u>965,058</u>

### Preston Upon the Wolverine

The Preston Upon the Wolverine Property was originally part of the property block called the New Buffalo Head Hills. During the three months ended October 31, 2005 the Company separated the townships that comprise the Preston Upon the Wolverine area into a new property. As a result, \$20,000 in acquisition costs were reclassified from the New Buffalo Head Hills Property to the Preston Upon the Wolverine Property.

# Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three Months Ended October 31, 2005

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## 4 Share capital

### Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Common shares #	Amount \$
Balance – beginning of period	10,010,001	1,104,440
Shares issued for cash	2,088,155	2,088,155
Warrants exercised	339,100	169,550
Options exercised	281,020	84,306
Reclassified from contributed surplus	-	27,259
Share issue costs	-	(70,802)
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Balance – end of period	12,718,276	3,402,908

On October 24, 2005, Grizzly closed a non-brokered private placement for an aggregate of 1,588,155 units and 500,000 flow-through common shares of Grizzly at a price of \$1.00 per unit or flow-through share, for aggregate proceeds of \$2,088,155. Each unit consisted of one common share of Grizzly and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$1.50 per common share within one year of issuance. The Company will be required to incur \$500,000 of qualifying expenditures to be renounced to the holders of the 500,000 flow-through shares. In connection with the private placement, Grizzly paid an aggregate of \$47,415 in finder's fees included in share issue costs.

During the three months ended October 31, 2005, the Company issued 339,100 common shares from the exercise of warrants for gross proceeds of \$169,500 and 281,020 common shares from the exercise of agent's options for gross proceeds of \$84,306.

### Stock options

The Company has a stock option plan under which directors, officers, employees or consultants of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee in a 12 month period shall not exceed 5% of the outstanding common shares of the company (2% in the case of a consultant or investor relations person). Options granted under the plan may not exceed 5 years and vest at terms to be determined by the board of directors at the time of grant, but shall be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or \$0.10 per share.

# Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three Months Ended October 31, 2005

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The following table summarizes activity related to stock options:

	Number of options outstanding #	Weighted average exercise price \$
Balance – beginning of period	1,085,000	0.33
Granted	150,000	0.70
Exercised	(281,020)	0.30
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Balance – end of period	953,980	0.40

The following table summarizes information about the Company's stock options outstanding:

Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
78,980	0.30	1.1
725,000	0.35	4.2
150,000	0.70	4.9
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953,980	0.40	4.0

All of the Company's outstanding stock options as at October 31, 2005 were exercisable.

The company accounts for options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and the life of the options.

The Company recorded stock-based compensation expense and contributed surplus in the amount of \$47,295 in the statement of loss and deficit for options granted in the three months ended October 31, 2005. The stock-based compensation expense has been determined based on the fair value of 150,000 options at the grant date (\$0.3153 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	3.05%
Expected volatility	81.0%
Annual dividend yield	0.0%
Expected life of options	2 years

# Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three Months Ended October 31, 2005

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## Warrants

The following table summarizes activity related to warrants:

	Number of warrants #	Weighted average exercise price \$
Balance – beginning of period	1,325,050	0.50
Exercised	(339,100)	0.50
Granted	794,077	1.50
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Balance – end of period	1,780,027	0.95

The following table summarizes information about the Company's warrants outstanding:

Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
985,950	0.50	1.1
794,077	1.50	1.0
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1,780,027	0.95	1.1

## 5 Related party transactions

During the three months ended October 31, 2005, consulting fees of \$10,250 (2004 - \$6,000) were paid to an officer of the company.

This transaction was in the normal course of operations and was measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## 6 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, and accounts payable and accrued liabilities. The carrying value of these assets and liabilities approximate their fair values due to the short term maturity of these instruments.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

# **Grizzly Diamonds Ltd.**

Notes to Financial Statements

(Unaudited)

**Three Months Ended October 31, 2005**

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## **7 Subsequent events**

Subsequent to October 31, 2005, the Company issued 31,900 common shares from the exercise of warrants for gross proceeds of \$15,950 as well as 25,000 common shares from the exercise of options for gross proceeds of \$8,750 and 10,000 common shares from the exercise of agent's options for gross proceeds of \$3,000.