

Grizzly Diamonds Ltd.

Financial Statements (Unaudited)

Three and Six Months Ended January 31, 2006

To the Shareholders of Grizzly Diamonds Ltd.:

The interim balance sheet of Grizzly Diamonds Ltd. as at January 31, 2006, 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

	<i>(unaudited)</i> January 31, 2006 \$	<i>audited</i> July 31, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	2,104,537	635,947
Goods and services tax receivable	55,154	41,175
Accrued interest receivable	4,537	6,295
	<hr/>	<hr/>
	2,164,228	683,417
Mineral properties (Note 3)	1,333,573	573,265
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	3,497,801	1,256,682
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	124,065	166,149
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Shareholders' equity		
Share capital (Note 4)	3,551,957	1,104,440
Contributed surplus	364,108	94,000
Deficit	(542,329)	(107,907)
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	3,373,736	1,090,533
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	3,497,801	1,256,682
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Approved by the Board of Directors

“Brian Testo”

“Pamela Strand”

Director

Director

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Loss and Deficit
(unaudited)

	Three months ended January 31, 2006 \$	Three months ended January 31, 2005 \$	Six months ended January 31, 2006 \$	Six months ended January 31, 2005 \$
Revenue				
Interest	11,806	-	15,490	-
Expenses				
General and administrative	(23,949)	(16,146)	(58,624)	(22,714)
Professional fees	(3,577)	(4,310)	(11,243)	(4,310)
Consulting fees	(53,250)	(8,250)	(69,500)	(14,250)
	(68,970)	(28,706)	(123,877)	(41,274)
Other expenses				
Stock-based compensation	(263,250)	(59,000)	(310,545)	(59,000)
Future income tax recovery	-	164,500	-	164,500
Net income (loss) for the period	(332,220)	76,794	(434,422)	64,226
Surplus/(Deficit) - beginning of period	(210,109)	(22,770)	(107,907)	(10,202)
Surplus/(Deficit) - end of period	(542,329)	54,024	(542,329)	54,024
Basic and diluted net income/(loss) per common share	(0.026)	0.010	(0.037)	0.001
Weighted average number of common shares outstanding	12,811,520	7,424,287	11,633,521	6,562,460

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Statements of Cash Flows

(unaudited)

	Three months ended January 31, 2006	Three months ended January 31, 2005	Six months ended January 31, 2006	Six months ended January 31, 2005
Cash provided by (used in)	\$	\$	\$	\$
Operating activities				
Net loss for the period	(332,220)	76,794	(434,422)	64,226
Items not affecting cash				
Stock-based compensation	263,250	59,000	310,545	59,000
Future income taxes	-	(164,500)	-	(164,500)
	(68,970)	(28,706)	(123,877)	(41,274)
Net change in non-cash working capital items	(210,260)	(39,356)	(54,305)	18,312
	(279,230)	(68,062)	(178,182)	(22,962)
Investing activities				
Mineral properties				
Acquisition costs	(9,033)	-	(25,918)	(6,000)
Exploration costs	(387,593)	(2,242)	(686,890)	(2,242)
Change in non-cash working capital items	(75,611)	-	(75,611)	-
	(311,982)	(2,242)	(637,197)	(8,242)
Financing activities				
Issuance of shares	91,025	1,200,000	2,433,036	1,200,000
Share issuance costs	(2,654)	(197,495)	(73,456)	(251,239)
	88,371	1,002,505	2,359,580	948,761
Increase (decrease) in cash and cash equivalents	(587,485)	932,201	1,468,590	917,557
Cash and cash equivalents - beginning of period	2,692,022	67,394	635,947	82,038
Cash and cash equivalents - end of period	2,104,537	999,595	2,104,537	999,595
Cash and cash equivalents consist of:				
Cash on deposit with bank	1,504,537	199,595	1,504,537	199,595
Guaranteed investment certificates	600,000	800,000	600,000	800,000
	2,104,537	999,595	2,104,537	999,595

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Six Months Ended January 31, 2006

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.

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 and Six Months Ended January 31, 2006

3 Mineral properties

	Ownership interest	July 31, 2005 balance	Acquisition costs	Exploration costs	January 31, 2006 balance
	%	\$	\$	\$	\$
Alberta					
White Bear	90	161,666	2,500	5,446	169,612
Smoky the Bear	90	105,030	6,250	24,966	136,246
Grand Cub Aidan	90	9,365	-	148,584	157,949
Legend	*	26,088	-	55,231	81,319
New Buffalo Head Hills	90	31,833	-	-	31,833
Call of the Wild	100	10,400	8,750	8,843	27,993
Preston Upon the Wolverine	90	20,000	-	335,301	355,301
					-
British Columbia					
Goat Mine	100	56,793	53,885	11,077	121,755
Peak	100	87,215	-	75,104	162,319
French	100	40,034	-	8,133	48,167
Silver Bear	100	24,841	2,033	14,205	41,079
					-
		<u>573,265</u>	<u>73,418</u>	<u>686,890</u>	<u>1,333,573</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 six months ended January 31, 2006 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.

* The Company has combined its 60% interest in the Legend Property and its 51% interest in the Little Legend Property into a single area of interest called "Legend".

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Six Months Ended January 31, 2006

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
Shares issued for other consideration	50,000	47,500
Warrants exercised	410,150	205,075
Options exercised	441,020	139,806
Reclassified from contributed surplus	-	40,437
Share issue costs	-	(73,456)
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Balance - end of period	12,999,326	3,551,957

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 six months ended January 31, 2006, the Company issued 410,150 common shares from the exercise of warrants for gross proceeds of \$205,075 and 441,020 common shares from the exercise of agent's options for gross proceeds of \$139,806.

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

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Six Months Ended January 31, 2006

4. Share capital, cont.

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.

The following table summarizes activity related to stock options:

	Number of options outstanding #	Weighted Average exercise price \$
Balance, July 31, 2004	-	-
Granted	1,085,000	0.33
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Balance – July 31, 2005	1,085,000	0.33
Granted	475,000	1.06
Exercised	(441,020)	0.32
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Balance – January 31, 2006	1,118,980	0.65

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

Number of options outstanding #	Weighted average exercise price \$	January 31, 2006	Number of options outstanding #	Weighted Average exercise price \$	July 31, 2005
		Weighted average remaining contractual life Years			Weighted average remaining contractual life Years
68,980	0.30	0.9	360,000	0.30	1.4
575,000	0.35	3.9	725,000	0.35	4.4
150,000	0.70	1.6	-	-	-
325,000	1.22	5.0	-	-	-
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1,118,980	0.65	3.7	1,085,000	0.33	3.4

All of the Company's outstanding stock options as at January 31, 2006 were exercisable.

The company accounts for options granted under this plan and the share option agreement with the agent 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.

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Six Months Ended January 31, 2006

4. Share capital, cont.

The Company recorded stock-based compensation expense and contributed surplus in the amount of \$310,545 (2005 - \$59,000) in the statement of loss and deficit for options granted in the six months ended January 31, 2006. The stock-based compensation expense has been determined based on the fair value of 475,000 options at the grant date (weighted average \$0.654 per option; 2005 – 725,000 options, \$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 weighted average assumptions:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	3.67%	2.5%
Expected volatility	91.3%	81.0%
Annual dividend yield	0.0%	0.0%
Expected life of options	5 years	1 year

Warrants

The following table summarizes activity related to warrants:

	Number of warrants #	Weighted average exercise price \$
Balance – July 31, 2004	-	-
Granted	1,325,050	0.50
Balance – July 31, 2005	1,325,050	0.50
Granted	794,077	1.50
Exercised	(410,150)	0.50
Balance – January 31, 2006	1,708,977	0.96

Grizzly Diamonds Ltd.

Notes to Financial Statements

(Unaudited)

Three and Six Months Ended January 31, 2006

5. Share capital, cont.

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

Number of warrants outstanding #	Weighted average exercise price \$	January 31, 2006	Number of warrants outstanding #	Weighted average exercise price \$	July 31, 2005
		Weighted average remaining contractual life Years			Weighted average remaining contractual life Years
914,900	0.50	0.9	1,325,050	0.50	1.4
794,077	1.50	0.7	-	-	-
1,708,977	0.96	0.8	1,325,050	0.50	1.4

6. Related party transactions

During the six months ended January 31, 2006, consulting fees of \$20,250 (2005 - \$13,750) were paid and Company expenses of \$706 (2004 - \$1,455) were reimbursed to an officer of the company; \$1,102 (2005 - nil) in Company expenses were reimbursed to an officer and director of the Company; and \$15,641 (2005 - \$3,798) in Company expenses were reimbursed to a company controlled by an officer and director of Grizzly. In the six month period ended January 31, 2005, the Company paid \$500 in consulting fees to a company controlled by an officer and director, and \$3,096 in geological consulting fees capitalized to mineral interests were paid to a company controlled by a director.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

7. 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 and Six Months Ended January 31, 2006

8. Subsequent events

Subsequent to January 31, 2006, the Company issued 109,050 common shares from the exercise of warrants for gross proceeds of \$54,525 as well as 10,000 common shares from the exercise of agent's options for gross proceeds of \$3,000 and 50,000 common shares for other consideration for gross proceeds of \$64,500.

On March 2, 2006, the Company announced that it has signed an agreement with Blue Diamond Mining Corporation ("Blue") and certain individuals from whom Blue acquired its mineral interests, resulting in the Company acquiring a 100% mineral interest in the Legend property and an 85% interest in the Little Legend property (collectively "Legend Property").

To acquire these properties, the Company paid Blue \$12,500 and 50,000 common shares of the Company, and paid the certain individuals 35,000 common shares of the Company as well as an additional 15,000 common shares of the Company if kimberlite or related rock is discovered on the Legend Property. Blue will retain a 2% Gross Overriding Royalty on all diamonds produced on the properties. The remaining 15% interest in the Little Legend Property is held by Grizzly Gold Inc., a company controlled by a director and officer of the Company. This acquisition has been approved by the requisite regulatory authorities.