

# **Grizzly Diamonds Ltd.**

Financial Statements

**Three months ended October 31, 2006 and 2005**

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 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

	(unaudited) October 31, 2006 \$	(audited) July 31, 2006 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,638,762	1,685,381
Accounts receivable	52,769	149,169
	1,691,531	1,834,550
Mineral properties (Note 4)	2,681,695	2,243,912
	4,373,226	4,078,462
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	212,391	123,513
Future income taxes	124,639	41,814
	337,030	165,327
<b>Shareholders' equity</b>		
Share capital (Note 5)	4,234,669	4,081,362
Contributed surplus (Note 6)	372,653	363,136
Deficit	(571,126)	(531,363)
	4,036,196	3,913,135
	4,373,226	4,078,462

Approved by the Board of Directors

Signed "Brian Testo" Director

Signed "Pam Strand" Director

See accompanying notes to financial statements

**Grizzly Diamonds Ltd.**  
**Statements of Net Loss and Deficit**  
**Three months ended October 31, 2006 and 2005**

	(unaudited) 2006 \$	(unaudited) 2005 \$
<b>Revenue</b>		
Interest	<u>13,917</u>	3,684
<b>Expenses</b>		
Advertising and promotion	6,621	13,392
Office	5,751	2,092
Conferences and corporate travel	4,145	17,577
Corporate filing and transfer fees	2,127	1,614
Professional fees	4,909	7,666
Consulting fees	<u>14,877</u>	16,250
	<u>38,430</u>	58,591
	(24,513)	(54,907)
<b>Other expenses</b>		
Stock-based compensation (Note 5(b))	<u>(15,250)</u>	(47,295)
<b>Net loss for the period</b>	(39,763)	(102,202)
<b>Deficit - beginning of period</b>	<u>(531,363)</u>	(107,907)
<b>Deficit - end of period</b>	<u>(571,126)</u>	(210,109)
<b>Basic and diluted net loss per common share</b>	<u>(0.003)</u>	(0.010)
<b>Weighted average number of common shares outstanding</b>	<u>13,827,657</u>	10,455,522

See accompanying notes to financial statements

# Grizzly Diamonds Ltd.

## Statements of Cash Flows

Three months ended October 31, 2006 and 2005

	(unaudited) 2006 \$	(unaudited) 2005 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(39,763)	(102,202)
Items not affecting cash and cash equivalents		
Stock-based compensation	15,250	47,295
	(24,513)	(54,907)
Net change in non-cash working capital items	185,278	231,566
	160,765	176,659
<b>Investing activities</b>		
Mineral properties	(437,783)	(391,793)
<b>Financing activities</b>		
Issuance of shares	234,344	2,342,011
Share issuance costs	(3,945)	(70,802)
	230,399	2,271,209
<b>Increase (decrease) in cash and cash equivalents</b>	(46,619)	2,056,075
<b>Cash and cash equivalents - beginning of period</b>	1,685,381	635,947
<b>Cash and cash equivalents - end of period</b>	1,638,762	2,692,022
<b>Cash and cash equivalents consist of:</b>		
Cash on deposit with financial institutions	1,638,762	1,692,022
Guaranteed investment certificates	-	1,000,000
	1,638,762	2,692,022

See accompanying notes to financial statements

# **Grizzly Diamonds Ltd.**

## **Notes to Financial Statements**

**Three months ended October 31, 2006 and 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 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, 2006 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, 2006.

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 period have been included.

### **3. Commitments**

The Company has pledged \$25,000 (2005 – nil) to its financial institution as security for corporate credit card liabilities. The Company has provided two letters of guarantee for \$28,200 in aggregate on reclamation work in order to facilitate exploration in certain mineral property areas.

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three months ended October 31, 2006 and 2005

### 4. Mineral Properties

	Ownership interest	July 31, 2006 balance	Acquisition costs	Exploration costs	October 31, 2006 balance
	%	\$	\$	\$	\$
<b>Alberta</b>					
White Bear	90-100	180,451	-	1,208	181,659
Smoky the Bear	90	261,549	-	1,458	263,007
Grand Cub Aidan	90-100	255,648	-	1,513	257,161
Legend	85-100	445,972	-	20,390	466,362
Call of the Wild	100	56,220	-	2,434	58,654
Preston upon the Wolverine	90	478,394	-	32,742	511,136
Kodiak	90-100	16,217	-	696	16,913
Bear Paw (a)	90-100	5,245	13,646	994	19,885
Grand Cub Parker	90-100	17,488	-	994	18,482
<b>British Columbia</b>					
Goat Mine	100	122,044	-	78	122,122
Peak	100	239,972	-	351,053	591,025
French	100	55,358	-	3,534	58,892
Silver Bear	100	109,354	-	7,043	116,397
		2,243,912	13,646	424,137	2,681,695
<b>July 31, 2005</b>					
	Ownership interest	July 31, 2005 balance	Acquisition costs	Exploration costs	July 31, 2006 balance
	%	\$	\$	\$	\$
<b>Alberta</b>					
White Bear	90-100	161,666	6,875	11,910	180,451
Smoky the Bear	90	105,030	9,350	147,169	261,549
Grand Cub Aidan	90-100	9,365	6,383	239,900	255,648
Legend	85-100	26,088	101,837	318,047	445,972
New Buffalo Head Hills	90	51,833	(51,833)	-	-
Call of the Wild	100	10,400	30,968	14,852	56,220
Preston upon the Wolverine	90	-	26,850	451,544	478,394
Kodiak	90-100	-	14,650	1,567	16,217
Bear Paw (a)	90-100	-	4,350	895	5,245
Grand Cub Parker	90-100	-	15,250	2,238	17,488
<b>British Columbia</b>					
Goat Mine	100	56,793	53,885	11,366	122,044
Peak	100	87,215	5,910	146,847	239,972
French	100	40,034	411	14,913	55,358
Silver Bear	100	24,841	67,991	16,522	109,354
		573,265	292,877	1,377,770	2,243,912

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three months ended October 31, 2006 and 2005

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### 4. Mineral Properties, cont.

#### a) Bear Paw

During the period ended October 31, 2006, Grizzly was successful in acquiring by bid process additional townships over 64,960 acres adjacent to the existing Bear Paw property in the Province of Alberta.

### 5. Share Capital

#### a) Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Three months ended October 31, 2007		Year ended July 31, 2006	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Balance – beginning of period	13,756,876	4,081,362	10,010,001	1,104,440
Shares issued for cash	292,280	234,344	3,561,875	2,992,311
Shares issued for other consideration	-	-	185,000	197,850
Reclassified from contributed surplus	-	5,733	-	41,409
Share issuance costs	-	(3,945)	-	(89,014)
Future income taxes	-	(82,825)	-	(165,634)
Balance – end of period	14,049,156	4,234,669	13,756,876	4,081,362

On October 12, 2006, Grizzly closed a non-brokered private placement to one arm's length purchaser of 200,000 flow-through common shares of Grizzly ("FT Shares") at a price of \$1.00 per Share for aggregate proceeds of \$200,000. The proceeds will be used to incur qualified Canadian Exploration Expenditures on Grizzly's mineral properties.

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three months ended October 31, 2006 and 2005

### 5. Share capital, cont.

#### b) Stock options

The following table summarizes activity related to stock options:

	Three months ended October 31, 2006		Year ended July 31, 2006	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance – beginning of period	1,108,980	0.65	1,085,000	0.33
Granted	25,000	0.89	475,000	1.06
Exercised	(58,980)	0.30	(451,020)	0.32
Balance – end of period	1,075,000	0.67	1,108,980	0.65

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

Number of options outstanding #	Weighted average exercise price \$	Three months ended October 31, 2006		Number of options outstanding #	Weighted Average exercise price \$	Year ended July 31, 2006	
		Weighted average remaining contractual life Years				Weighted average remaining contractual life Years	
575,000	0.35	3.2		58,980	0.30	0.4	
150,000	0.70	3.9		575,000	0.35	3.4	
325,000	1.22	4.2		150,000	0.70	4.1	
25,000	0.89	5.0		325,000	1.22	4.5	
1,075,000	0.67	3.6		1,108,980	0.65	3.7	

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

The Company accounts for options granted under this plan and the stock 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

Three months ended October 31, 2006 and 2005

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### 5. Share Capital, cont.

The Company recorded stock-based compensation expense in the amount of \$15,250 (2005 – \$47,295) in the statement of loss and deficit for options granted in the period ended October 31, 2006 (October 31, 2005). The stock-based compensation expense has been determined based on the fair value of 25,000 (2005 – 150,000) options at the grant date, with a fair value of \$0.610 per option (2005 – \$0.315 per option). All of the Company's options were issued with an exercise price equal to the market price on the grant date.

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:

	Three months ended October 31, 2006	Year ended July 31, 2006
Risk-free interest rate	4.06%	3.05%
Expected volatility	80.0%	81.0%
Annual dividend yield	0.0%	0.0%
Expected life of options	5 years	2 years

#### c) Warrants

The following table summarizes activity related to warrants:

	Three months ended October 31, 2006		Year ended July 31, 2006	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – beginning of year	1,596,427	1.00	1,325,050	0.50
Issued	-	-	794,077	1.50
Exercised	(33,300)	0.50	(522,700)	0.50
Balance – end of year	1,563,127	1.01	1,596,427	1.00

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three months ended October 31, 2006 and 2005

### 5. Share Capital, cont.

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

Three months ended October 31, 2006			Year ended July 31, 2006		
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
769,050	0.10	0.4	802,350	0.50	0.4
794,077	1.50	1.0	794,077	1.50	0.2
1,563,127	1.01	0.56	1,596,427	1.00	0.3

During the period ended October 31, 2006, the expiry date of the 794,077 warrants outstanding issued on July 29, 2005 has been extended by an additional year to October 24, 2007.

### 6. Contributed Surplus

Contributed surplus arises from the recognition of estimated fair value of stock options and agents options as follows:

	Three months ended October 31, 2006	Year ended July 31, 2006
	\$	\$
Balance – beginning of period	363,136	94,000
Stock options granted	15,250	310,545
Exercise of options	(5,733)	(41,409)
Balance – end of period	372,653	363,136

### 7. Related party transactions

During the period ended October 31, 2006, consulting fees of \$4,000 (2005 - \$10,250) were paid to a former officer and/or a company controlled by a current officer of the Company; consulting fees of \$625 (2005 – nil) were paid to a company controlled by a director. Of these amounts, \$2,000 (2005 – nil) is included in accounts payable.

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.