

Grizzly Diamonds Ltd.

Financial Statements

Three months ended October 31, 2007 and 2006

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 31, 2007, and the interim statements of net loss, comprehensive 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, 2007	(audited) July 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	806,607	1,451,409
Restricted cash (note 6)	25,000	25,000
Prepaid expenses	73,561	20,843
Accounts receivable	62,595	44,556
	<hr/> 967,763	1,541,808
Restricted cash (note 6)	28,200	28,200
Mineral properties (note 5)	4,279,550	3,800,668
	<hr/> 5,275,513	5,370,676
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	148,389	152,198
Future income taxes	437,166	437,166
	<hr/> 585,555	589,364
Shareholders' equity		
Share capital (note 7)	5,096,356	5,096,356
Contributed surplus (note 8)	555,853	536,353
Deficit	(962,251)	(851,397)
	<hr/> 4,689,958	4,781,312
	<hr/> 5,275,513	5,370,676

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, Comprehensive Loss, and Deficit Three months ended October 31, 2007 and 2006

	(unaudited) 2007 \$	(unaudited) 2006 \$
Revenue		
Interest	<u>14,990</u>	13,917
Expenses		
Advertising and promotion	4,997	6,621
Office	8,175	5,751
Conferences and corporate travel	8,238	4,145
Corporate filing and transfer fees	2,810	2,127
Professional fees	11,590	4,909
Consulting fees	<u>70,534</u>	14,877
	<u>106,344</u>	38,430
	(91,354)	(24,513)
Other expenses		
Stock-based compensation (note 7)	<u>(19,500)</u>	(15,250)
Net loss and comprehensive loss for the period	(110,854)	(39,763)
Deficit - beginning of period	<u>(851,397)</u>	(531,363)
Deficit - end of period	<u>(962,251)</u>	(571,126)
Basic and diluted net loss per common share	<u>(0.01)</u>	(0.00)
Weighted average number of common shares outstanding	<u>15,761,706</u>	13,827,657

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Cash Flows
Three months ended October 31, 2007 and 2006

	(unaudited) 2007 \$	(unaudited) 2006 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(110,854)	(39,763)
Items not affecting cash and cash equivalents		
Stock-based compensation	19,500	15,250
	(91,354)	(24,513)
Net change in non-cash working capital items	(94,387)	87,451
	(185,732)	62,938
Investing activities		
Mineral properties	(478,882)	(437,783)
Net change in non-cash working capital items	19,812	97,827
	(459,070)	(339,956)
Financing activities		
Issuance of shares	-	234,344
Share issuance costs	-	(3,945)
	-	230,399
Increase (decrease) in cash and cash equivalents	(644,802)	(46,619)
Cash and cash equivalents - beginning of period	1,451,409	1,685,381
Cash and cash equivalents - end of period	806,607	1,638,762
Cash and cash equivalents consist of:		
Cash on deposit with financial institutions	806,607	1,638,762
Guaranteed investment certificates	-	-
	806,607	1,638,762

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Notes to Financial Statements

Three months ended October 31, 2007 and 2006

1. Nature of operations

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, 2007 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, 2007.

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. Changes in accounting policies

Effective August 1, 2007, the Company adopted the revised Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1506 – Accounting Changes, which requires that: (a) a voluntary change in accounting policies can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary changes in accounting policies since the adoption of the revised standard.

Effective August 1, 2007, the Company adopted the following new or revised CICA Handbook Sections:

- Section 1530 – Comprehensive Income;
- Section 3251 – Equity;
- Section 3855 – Financial Instruments – Recognition and Measurement;
- Section 3861 – Financial Instruments – Disclosure and Presentation; and
- Section 3865 – Hedges.

Grizzly Diamonds Ltd.

Notes to Financial Statements

Three months ended October 31, 2007 and 2006

These standards require that the Company initially recognize all arms length financial assets and financial liabilities on the balance sheet at their fair values. Subsequent to initial recognition, financial instruments are measured at fair value, amortized cost or cost depending on the financial instrument classification. The Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, and accounts receivable. The Company has no unrecognized financial instruments or derivative financial instruments.

Upon initial recognition, the Company has designated its cash and cash equivalents and restricted cash as held for trading, and accordingly they are recognized on the balance sheet at their fair values, and changes in fair value are recognized in net income in the period in which the change arises. Accounts receivable has been classified as loans and receivables, and is measured at amortized cost. Accounts payable and accrued liabilities have been classified as other liabilities, and are measured at amortized cost.

The estimated fair market values of the Company's financial instruments approximate their carrying values due to their short-term nature.

Regular-way purchases and sales of financial assets will be accounted for using trade-date accounting, and transaction costs on financial instruments other than those classified as held for trading will be recognized in net income in the period.

It is management's opinion that they are not subject to significant interest, currency or credit risks arising from their financial instruments.

4. Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit with financial institutions. The repayment of monies on deposit and interest payable on those monies is guaranteed by the Crown in right of Alberta.

Grizzly Diamonds Ltd.

Notes to Financial Statements

Three months ended October 31, 2007 and 2006

5. Mineral properties

	Alberta			British Columbia				Total
	Legend	Buffalo Head Hills (a)	Call of the Wild	Ant	Peak and French (b)	Silver Bear	Goat Mine	
Ownership interest (%)	85-100	90-100	49	51	100	100	-	
Additions	\$	\$	\$	\$	\$	\$	\$	\$
Balance, July 31, 2006	445,972	1,214,992	56,220	-	295,330	109,354	122,044	2,243,912
Acquisition costs	-	-	-	12,000	-	52,500	-	64,500
Staking and land use	169	35,519	375	1,160	100	1,666	-	38,989
Fieldwork	167,128	94,482	7,019	16,791	181,537	20,110	78	487,145
Geophysics	620	365,517	-	-	40,000	-	-	406,137
Drilling	383,899	-	-	-	235,340	-	-	619,239
Analysis	18,661	-	-	-	41,852	2,355	-	62,868
Write downs	-	-	-	-	-	-	(122,122)	(122,122)
Balance, July 31, 2007	1,016,449	1,710,510	63,614	29,951	794,159	185,985	-	3,800,668
Acquisition costs	-	-	-	-	-	-	-	-
Staking and land use	-	-	-	-	-	-	-	-
Fieldwork	3,585	11,205	-	9,015	45,952	200	-	69,957
Geophysics	-	-	-	-	-	-	-	-
Drilling	-	-	-	-	377,790	-	-	377,790
Analysis	5,770	-	-	17,885	7,480	-	-	31,135
Balance, October 31, 2007	1,025,804	1,721,715	63,614	56,851	1,225,381	186,185	-	4,279,550
Balances								
Acquisition	102,006	142,227	41,343	13,160	94,270	143,657	-	536,663
Exploration	923,798	1,579,488	22,271	43,691	1,131,111	42,528	-	3,742,887
Balance, October 31, 2007	1,025,804	1,721,715	63,614	56,851	1,225,381	186,185	-	4,279,550

a) Buffalo Head Hills

During the period ended October 31, 2007, the townships that comprised the following properties were re-allocated for presentation into one large area of interest renamed Buffalo Head Hills: Bear Paw, Grand Cub Aidan, Grand Cub Parker, Kodiak, Smoky the Bear, White Bear, and Preston Upon the Wolverine.

b) Peak and French

During the period ended October 31, 2007, the townships that comprised the Peak property and French property were re-allocated into one large area of interest renamed Peak and French.

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Notes to Financial Statements

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6. Commitments

The Company has restricted cash in the amount of \$25,000 (2006 – \$25,000) as security for corporate credit card liabilities. The Company also has restricted cash in the amount of \$28,200 (2006 - \$28,200) relating to two letters of guarantee for reclamation work in order to facilitate exploration in certain mineral property areas.

7. Share capital

Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Period ended October 31, 2007		Year ended July 31, 2007	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Balance – beginning of period	15,761,706	5,096,356	13,756,876	4,081,362
Shares issued for cash	-	-	1,954,830	1,605,619
Shares issued for mineral properties	-	-	50,000	52,500
Reclassified from contributed surplus	-	-	-	5,733
Share issuance costs	-	-	-	(159,668)
Future income taxes	-	-	-	(489,190)
Balance – end of period	15,761,706	5,096,356	15,761,706	5,096,356

On August 15, 2007, Grizzly entered into an agreement with Com-advice AG of Baar, Switzerland for the provision of advertising and promotional services in Europe, the Middle East and Africa. Pursuant to the agreement, Grizzly has paid Com-advice AG a fee of \$100,000 and will grant stock options to Com-advice AG pursuant to the Company's stock option plan to acquire 100,000 common shares of Grizzly at an exercise price of \$1.20 and 50,000 common shares at an exercise price of \$1.50.

The term of the agreement will be until August 14, 2008 and will be automatically renewed for an additional one year term at a cash compensation of \$100,000 if not cancelled three months prior to expiration of the first term.

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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 not 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. Occasionally, the Company issues stock options to agents which do not fall under the plan.

The following table summarizes activity related to stock options:

	Period ended October 31, 2007		Year ended July 31, 2007	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance – beginning of period	1,265,000	0.78	1,108,980	0.65
Granted	-	-	365,000	1.06
Cancelled	-	-	(150,000)	0.70
Exercised	-	-	(58,980)	0.30
Balance – end of period	1,265,000	0.78	1,265,000	0.78

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

	Period ended October 31, 2007			Year ended July 31, 2007		
	Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of options outstanding #	Weighted Average exercise price \$	Weighted average remaining contractual life Years
	575,000	0.35	2.2	575,000	0.35	2.4
	325,000	1.22	3.2	325,000	1.22	3.5
	25,000	0.89	4.0	25,000	0.89	4.2
	150,000	1.00	2.0	150,000	1.00	2.3
	90,000	1.10	0.1	90,000	1.10	0.4
	100,000	1.15	4.5	100,000	1.15	4.8
	1,265,000	0.78	2.5	1,265,000	0.78	2.8

Of the Company's outstanding options as at October 31, 2007, 1,227,500 were exercisable.

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Warrants

The following table summarizes activity related to warrants:

	Period ended October 31, 2007		Year ended July 31, 2007	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – beginning of period	1,244,077	1.50	1,596,427	1.00
Issued	-	-	450,000	1.50
Exercised	-	-	(795,850)	0.50
Expired	(794,077)	1.50	(6,500)	0.50
Balance – end of period	450,000	1.50	1,244,077	1.50

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

Number of warrants outstanding #	Weighted average exercise price \$	Year ended July 31, 2007	Number of warrants outstanding #	Weighted average exercise price \$	Year ended July 31, 2006
		Weighted average remaining contractual life Years			Weighted average remaining contractual life Years
450,000	1.50	0.1	794,077	1.50	0.2
450,000	1.50	0.1	450,000	1.50	0.4
450,000	1.50	0.1	1,244,077	1.50	0.3

8. Contributed Surplus

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

	Year ended July 31, 2007	Year ended July 31, 2007
	\$	\$
Balance – beginning of period	536,353	363,136
Stock options granted ⁽¹⁾	19,500	178,950
Exercise of options	-	(5,733)
Balance – end of period	555,853	536,353

(1) Stock options granted or vesting in the period.

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9. Related party transactions

During the period ended October 31, 2007, consulting fees of \$21,000 (2006 – \$4,000) were paid to companies controlled by current officers of the Company; and consulting fees of \$1,000 (2006 – \$625) were paid to a company controlled by a director. All amounts were fully paid as at October 31, 2007 (2006 – \$2,000 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.

10. Comparative amounts

Certain comparative amounts have been reclassified to conform to current year presentation.