

Grizzly Diamonds Ltd.

Financial Statements

Three and six months ended January 31, 2008 and 2007

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at January 31, 2008, 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) January 31, 2008	(audited) July 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,342,753	1,451,409
Restricted cash (note 6)	25,000	25,000
Prepaid expenses	253,041	20,843
Accounts receivable	76,546	44,556
	<hr/> 3,697,340	1,541,808
Restricted cash (note 6)	28,200	28,200
Mineral properties (note 5)	4,837,339	3,800,668
	<hr/> 8,562,879	5,370,676
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	800,747	152,198
Future income taxes	437,166	437,166
	<hr/> 1,237,913	589,364
Shareholders' equity		
Share capital (note 7)	7,714,748	5,096,356
Contributed surplus (note 8)	782,420	536,353
Deficit	(1,172,202)	(851,397)
	<hr/> 7,324,966	4,781,312
	<hr/> 8,562,879	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 (unaudited)

	Three months ended January 31 2008 \$	Three months ended January 31 2007 \$	Six months ended January 31 2008 \$	Six months ended January 31 2007 \$
Revenue				
Interest	22,351	19,578	37,341	33,495
Expenses				
Advertising and promotion	4,570	6,543	9,567	13,164
Office	10,725	3,410	18,900	9,161
Conferences and corporate travel	26,818	11,243	35,056	15,388
Corporate filing and transfer fees	5,307	4,766	8,117	6,893
Professional fees	5,351	9,648	16,941	14,557
Consulting fees	60,031	13,158	130,565	28,035
	112,802	48,768	219,146	87,198
	(90,451)	(29,190)	(181,805)	(53,703)
Other expenses				
Write down of mineral properties	-	(122,122)	-	(122,122)
Stock-based compensation (note 7)	(119,500)	-	(139,000)	(15,250)
Loss before income taxes	(209,951)	(151,312)	(320,805)	(191,075)
Future income tax benefit	-	40,460	-	40,460
Net loss and comprehensive loss for the period	(209,951)	(110,852)	(320,805)	(150,615)
Deficit - beginning of period	(962,251)	(571,126)	(851,397)	(531,363)
Deficit - end of period	(1,172,202)	(681,978)	(1,172,202)	(681,978)
Basic and diluted net loss per common share	(0.01)	(0.01)	(0.02)	(0.01)
Weighted average number of common shares outstanding	16,884,020	14,910,815	16,502,235	14,527,140

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Statements of Cash Flows

(unaudited)

	Three months ended January 31 2008 \$	Three months ended January 31 2007 \$	Six months ended January 31 2008 \$	Six months ended January 31 2007 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss for the period	(209,951)	(110,852)	(320,805)	(150,615)
Items not affecting cash and cash equivalents				
Future income tax benefit	-	(40,460)	-	(40,460)
Write down of mineral properties	-	122,122	-	122,122
Stock-based compensation	119,500	-	139,000	15,250
	(90,451)	(29,190)	(181,805)	(53,703)
Net change in non-cash working capital items	(160,281)	33,365	(254,668)	218,643
	(250,732)	4,175	(436,473)	164,940
Investing activities				
Mineral properties	(557,789)	(364,496)	(1,036,671)	(802,278)
Net change in non-cash working capital items	619,217	-	639,029	-
	61,428	(364,496)	(397,642)	(802,278)
Financing activities				
Issuance of shares	2,769,200	1,371,275	2,769,200	1,605,619
Share issuance costs	(43,741)	(103,824)	(43,741)	(107,769)
	2,725,459	1,267,451	2,725,459	1,497,850
Increase (decrease) in cash and cash equivalents	2,536,146	907,130	1,891,344	860,512
Cash and cash equivalents - beginning of period	806,607	1,638,763	1,451,409	1,685,381
Cash and cash equivalents - end of period	3,342,753	2,545,893	3,342,753	2,545,893
Cash and cash equivalents consist of:				
Cash on deposit with financial institutions	3,342,753	2,545,893	3,342,753	2,545,893
	3,342,753	2,545,893	3,342,753	2,545,893

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Notes to Financial Statements

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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.

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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.

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Notes to Financial Statements

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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
Fieldwork	3,585	76,665	-	13,482	87,259	10,649	-	191,640
Geophysics	-	274,293	-	-	-	50,000	-	324,293
Drilling	-	38,932	-	-	377,789	-	-	416,721
Analysis	5,770	-	-	17,981	80,266	-	-	104,017
Balance, January 31, 2008	1,025,804	2,100,400	63,614	61,414	1,339,473	246,634	-	4,837,339
Balances								
Acquisition	102,006	142,227	41,343	13,160	94,270	143,657	-	536,663
Exploration	923,798	1,958,173	22,271	48,254	1,245,203	102,977	-	4,300,676
Balance, January 31, 2008	1,025,804	2,100,400	63,614	61,414	1,339,473	246,634	-	4,837,339

a) Buffalo Head Hills

During the period ended January 31, 2008, 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 January 31, 2008, 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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6. Commitments

The Company has restricted cash in the amount of \$25,000 (2007 – \$25,000) as security for corporate credit card liabilities. The Company also has restricted cash in the amount of \$28,200 (2007 - \$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 January 31, 2008		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	2,518,363	2,769,200	1,954,830	1,605,619
Shares issued for mineral properties	-	-	50,000	52,500
Reclassified from contributed surplus	-	-	-	5,733
Share issuance costs	-	(150,808)	-	(159,668)
Future income taxes	-	-	-	(489,190)
Balance – end of period	18,280,069	7,714,748	15,761,706	5,096,356

On December 21, 2007, Grizzly closed a non-brokered private placement (“Offering”) of an aggregate of 2,508,363 flow through units (“FT units”) at a price of \$1.10 per FT unit and 10,000 non-flow through units (“Non-FT units”) at a price of \$1.00 per Non-FT unit, for gross proceeds of \$2,769,200. Each FT unit consisted of one flow through common share of the Company and one-half of a share purchase warrant (“warrant”). Each Non-FT unit consisted of one common share of the Company and one-half of a warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$1.50 until December 21, 2009. As at January 31, 2008, Grizzly has incurred \$325,500 of eligible flow-through expenditures, and is committed to incur another \$2,433,700 by December 31, 2008.

In connection with the Offering, Grizzly also issued to the agent warrants (“Agent warrants”) to acquire up to 237,927 common shares of the Company at a price of \$1.10 per Agent warrant until December 21, 2009.

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 has granted 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.

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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.

Stock options

The following table summarizes activity related to stock options:

	Period ended January 31, 2008		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	250,000	1.00	365,000	1.06
Expired	(90,000)	1.10	(150,000)	0.70
Exercised	-	-	(58,980)	0.30
Balance – end of period	1,425,000	0.83	1,265,000	0.78

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

	Period ended January 31, 2008			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	1.9	575,000	0.35	2.4
	325,000	1.22	3.0	325,000	1.22	3.5
	25,000	0.89	3.7	25,000	0.89	4.2
	150,000	1.00	1.8	150,000	1.00	2.3
	100,000	1.15	4.3	90,000	1.10	0.4
	100,000	1.20	4.6	100,000	1.15	4.8
	50,000	1.50	4.6	-	-	-
	100,000	1.05	4.9	-	-	-
	1,425,000	0.83	2.8	1,265,000	0.78	2.8

All of the Company's outstanding options were exercisable at January 31, 2008.

Subsequent to the period, Grizzly granted 600,000 stock options at an exercise price of \$1.20 per option.

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Warrants

The following table summarizes activity related to warrants:

	Period ended January 31, 2008		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	1,497,107	1.44	450,000	1.50
Exercised	-	-	(795,850)	0.50
Expired	(1,244,077)	1.50	(6,500)	0.50
Balance – end of period	1,497,107	1.44	1,244,077	1.50

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

Period ended January 31, 2008			Year ended July 31, 2007		
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
1,259,180	1.50	1.9	794,077	1.50	0.2
237,927	1.10	1.9	450,000	1.50	0.4
1,497,107	1.44	1.9	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 warrants as follows:

	Period ended January 31, 2008	Year ended July 31, 2007
	\$	\$
Balance – beginning of period	536,353	363,136
Stock options granted ⁽¹⁾	139,000	178,950
Agents warrants issued	107,067	-
Exercise of options	-	(5,733)
Balance – end of period	782,420	536,353

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

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9. Related party transactions

During the period ended January 31, 2008, consulting fees of \$42,000 (2007 – \$10,000) were paid to companies controlled by current officers of the Company; and consulting fees of \$1,000 (2007 – \$1,625) were paid to a company controlled by a director. All amounts were fully paid as at January 31, 2008 and 2007.

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.

11. Subsequent events

On March 10, 2008, Grizzly signed an option agreement with a private arms length company (“the Vendor”), to acquire a 100% interest in the Greenwood Property (“the Property”) located in the vicinity of the town of Greenwood, BC.

In order to acquire a 100% interest in the Property, Grizzly must complete the following:

- payment to the Vendor the sum of \$12,500 cash upon execution of the Agreement and the issuance of 25,000 common shares of Grizzly;
- payment to the Vendor between now and March 1, 2012 a further total of \$212,500 cash and the issuance of 175,000 common shares of Grizzly; and
- Incur exploration expenditures on the Property totaling \$2 million over the next five years.

The Vendor will retain a combined two point five percent (2.5%) industry standard net smelter royalty (NSR) on the Property. Grizzly can purchase up to 1.5% of the 2.5% NSR for a price of \$1,500,000. The Agreement is subject to a number of conditions, including TSX Venture Exchange and regulatory approvals and satisfactory due diligence by Grizzly, which must be satisfied or waived by May 1, 2008.