

# **Grizzly Diamonds Ltd.**

Financial Statements

**Three and nine months ended April 30, 2008 and 2007**

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at April 30, 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) April 30, 2008	(audited) July 31, 2007
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,308,430	1,451,409
Restricted cash (note 5)	25,000	25,000
Prepaid expenses	27,420	20,843
Accounts receivable	153,595	44,556
	<hr/> 2,514,445	1,541,808
<b>Restricted cash (note 5)</b>	28,200	28,200
<b>Mineral properties (note 6)</b>	6,440,629	3,800,668
	<hr/> 8,983,274	5,370,676
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	529,587	152,198
<b>Future income taxes</b>	1,378,605	437,166
	<hr/> 1,908,192	589,364
<b>Shareholders' equity</b>		
Share capital (note 7)	7,516,239	5,096,356
Contributed surplus (note 8)	1,258,070	536,353
Deficit	(1,699,227)	(851,397)
	<hr/> 7,075,082	4,781,312
	<hr/> 8,983,274	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 April 30 2008 \$	Three months ended April 30 2007 \$	Nine months ended April 30 2008 \$	Nine months ended April 30 2007 \$
<b>Revenue</b>				
Interest	24,944	18,906	62,285	52,401
<b>Expenses</b>				
Advertising and promotion	(12,590)	(15,661)	(22,157)	(28,825)
Office	(13,229)	(12,912)	(32,129)	(22,073)
Conferences and corporate travel	(6,364)	(18,321)	(41,420)	(33,709)
Corporate filing and transfer fees	(10,141)	(8,428)	(18,258)	(15,321)
Professional fees	(3,137)	(4,172)	(20,078)	(18,729)
Consulting fees	(58,008)	22,159	(188,573)	(5,876)
	(41,184)	(18,429)	(260,330)	(72,132)
<b>Other expenses</b>				
Write down of mineral properties	-	-	-	(122,122)
Stock-based compensation (note 7)	(448,500)	(19,500)	(587,500)	(34,750)
<b>Loss before income taxes</b>	(527,025)	(37,929)	(847,830)	(229,004)
<b>Future income tax benefit</b>	-	54,085	-	94,545
<b>Net income (loss) for the period</b>	(527,025)	16,156	(847,830)	(134,459)
<b>Deficit - beginning of period</b>	(1,172,202)	(681,978)	(851,397)	(531,363)
<b>Deficit - end of period</b>	(1,699,227)	(665,822)	(1,699,227)	(665,822)
<b>Basic and diluted net loss per common share</b>	(0.03)	0.00	(0.05)	(0.01)
<b>Weighted average number of common shares outstanding</b>	18,759,792	15,233,607	17,036,137	14,818,430

See accompanying notes to financial statements

**Grizzly Diamonds Ltd.**  
**Statements of Cash Flows**  
*(unaudited)*

	<b>Three months ended April 30 2008</b>	Three months ended April 30 2007	<b>Nine months ended April 30 2008</b>	Nine months ended April 30 2007
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(527,025)	16,156	(847,830)	(134,459)
Items not affecting cash and cash equivalents				
Future income tax benefit	-	(54,085)	-	(94,545)
Write down of mineral properties	-	-	-	122,122
Stock-based compensation	448,500	19,500	587,500	34,750
	<b>(78,525)</b>	<b>(18,429)</b>	<b>(260,330)</b>	<b>(72,132)</b>
Net change in non-cash working capital items	54,845	(240,061)	(199,823)	(21,418)
	<b>(23,680)</b>	<b>(258,490)</b>	<b>(460,153)</b>	<b>(93,550)</b>
<b>Investing activities</b>				
Mineral properties	(1,525,790)	(537,253)	(2,562,461)	(1,339,531)
Net change in non-cash working capital items	(177,433)	-	461,596	-
	<b>1,703,223</b>	<b>(537,253)</b>	<b>(2,100,865)</b>	<b>(1,339,531)</b>
<b>Financing activities</b>				
Issuance of shares	1,000,000	-	3,769,200	1,605,619
Cash share issuance costs	(307,420)	(1,686)	(351,161)	(109,455)
	<b>692,580</b>	<b>(1,686)</b>	<b>3,418,039</b>	<b>1,496,164</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,034,323)</b>	<b>(797,429)</b>	<b>857,021</b>	<b>63,083</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>3,342,753</b>	<b>2,545,893</b>	<b>1,451,409</b>	<b>1,685,381</b>
<b>Cash and cash equivalents - end of period</b>	<b>2,308,430</b>	<b>1,748,464</b>	<b>2,308,430</b>	<b>1,748,464</b>
<b>Cash and cash equivalents consist of:</b>				
Cash on deposit with financial institutions	2,308,430	1,748,464	2,308,430	1,748,464
	<b>2,308,430</b>	<b>1,748,464</b>	<b>2,308,430</b>	<b>1,748,464</b>

See accompanying notes to financial statements

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three and nine months ended April 30, 2008 and 2007

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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.

# **Grizzly Diamonds Ltd.**

## **Notes to Financial Statements**

**Three and nine months ended April 30, 2008 and 2007**

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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.

#### **5. 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.

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three and nine months ended April 30, 2008 and 2007

### 6. Mineral properties

	<b>Alberta Diamond Properties</b>	<b>BC Precious Mineral Properties</b>	<b>Total</b>
Ownership interest (%)	49-100	51-100	<b>49-100</b>
<b>Additions</b>	\$	\$	\$
Balance, July 31, 2006	1,717,184	526,728	<b>2,243,912</b>
Acquisition costs	-	64,500	<b>64,500</b>
Staking and land use	36,063	2,926	<b>38,989</b>
Fieldwork	268,629	218,516	<b>487,145</b>
Geophysics	366,137	40,000	<b>406,137</b>
Drilling	383,899	235,340	<b>619,239</b>
Analysis	18,661	44,207	<b>62,868</b>
Write downs	-	(122,122)	<b>(122,122)</b>
Balance, July 31, 2007	2,790,573	1,010,095	<b>3,800,668</b>
Acquisition costs	-	120,975	<b>120,975</b>
Staking and land use	1,250	1,251	<b>2,501</b>
Fieldwork	276,363	129,159	<b>405,522</b>
Geophysics	497,265	75,890	<b>573,155</b>
Drilling	1,035,307	377,789	<b>1,413,096</b>
Analysis	14,963	109,749	<b>124,712</b>
Balance, April 30, 2008	<b>4,615,721</b>	<b>1,824,908</b>	<b>6,440,629</b>
<b>Balances</b>			
Acquisition	286,826	373,312	<b>660,138</b>
Exploration	4,328,895	1,451,596	<b>5,780,491</b>
Balance, April 30, 2008	<b>4,615,721</b>	<b>1,824,908</b>	<b>6,440,629</b>

#### a) Alberta Diamond Properties

During the period ended April 30, 2008, the following properties were re-allocated for presentation purposes into one large area of interest renamed Alberta Diamond Properties: Bear Paw, Call of the Wild, Grand Cub Aidan, Grand Cub Parker, Kodiak, Legend, Whitefish, Smoky the Bear, White Bear, and Preston Upon the Wolverine.

#### b) BC Precious Mineral Properties

During the period ended April 30, 2008, the following properties were re-allocated for presentation purposes into one large area of interest renamed BC Precious Mineral Properties: Ant, French, Greenwood, Peak, and Silver Bear.

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three and nine months ended April 30, 2008 and 2007

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During the period ended April 30, 2008, Grizzly signed an option agreement with a private arms length company ("the Vendor"), to acquire a 100% interest in the Greenwood 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; and
- payment to the Vendor before 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.

Subsequent to April 30, 2008, Grizzly signed an amendment to the agreement whereby Grizzly acquired additional claim groups totaling 61,650 acres, increasing the total size of the Greenwood Property to 77,225 acres. These claim groups have been added to the property for an additional cost of \$12,500 cash, the issuance 125,000 common shares of Grizzly over the next four years, and an increased expenditure commitment of \$50,000 during each of the first two years of the original agreement.

## 7. Share capital

### Shares

Authorized:

- Unlimited number of common shares
- Unlimited number of preferred shares

Issued:

	Period ended April 30, 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	3,489,363	3,769,200	1,954,830	1,605,619
Shares issued for mineral properties	75,000	77,500	50,000	52,500
Reclassified from contributed surplus	-	-	-	5,733
Share issuance costs	-	(485,378)	-	(159,668)
Future income taxes	-	(941,439)	-	(489,190)
Balance – end of period	19,326,069	7,516,239	15,761,706	5,096,356

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

### Three and nine months ended April 30, 2008 and 2007

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On April 11, 2008, Grizzly closed a non-brokered private placement (“Offering”) of an aggregate of 971,000 units (“Units”) at a price of \$1.00 per Unit, for gross proceeds of \$971,000. Each Unit consisted of one common share of the Company and one-half of a non-transferable share purchase warrant (“Warrant”) and each whole Warrant entitles the holder to acquire one additional common share at a price of \$1.25 until April 11, 2010. Grizzly also issued to the agents warrants (“Agent warrants”) to acquire up to 66,220 common shares of the Company at a price of \$1.00 per Agent warrant until April 11, 2010.

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. 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.

As at April 30, 2008, Grizzly has incurred \$1,940,000 of eligible flow-through expenditures, and is committed to incur another \$819,200 by December 31, 2008.

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.

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 April 30, 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	850,000	1.20	365,000	1.06
Expired	(90,000)	1.10	(150,000)	0.70
Exercised	-	-	(58,980)	0.30
Balance – end of period	2,025,000	0.94	1,265,000	0.78

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

Three and nine months ended April 30, 2008 and 2007

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

Number of options outstanding #	Period ended April 30, 2008			Year ended July 31, 2007		
	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	1.7	575,000	0.35	2.4	
325,000	1.22	2.7	325,000	1.22	3.5	
25,000	0.89	3.5	25,000	0.89	4.2	
150,000	1.00	1.5	150,000	1.00	2.3	
100,000	1.15	4.0	90,000	1.10	0.4	
100,000	1.20	4.3	100,000	1.15	4.8	
50,000	1.50	4.3	-	-	-	
100,000	1.05	4.6	-	-	-	
600,000	1.20	4.9	-	-	-	
2,025,000	0.94	3.2	1,265,000	0.78	2.8	

All of the Company's outstanding options were exercisable at April 30, 2008.

### Warrants

The following table summarizes activity related to warrants:

	Period ended April 30, 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	1,563,327	1.41	450,000	1.50
Exercised	-	-	(795,850)	0.50
Expired	(1,244,077)	1.50	(6,500)	0.50
Balance – end of period	1,563,327	1.41	1,244,077	1.50

# Grizzly Diamonds Ltd.

## Notes to Financial Statements

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

Period ended April 30, 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	1.6	794,077	1.50	0.2
237,927	1.10	1.6	450,000	1.50	0.4
66,220	1.00	1.9	-	-	-
1,563,327	1.41	1.6	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 April 30, 2008	Year ended July 31, 2007
	\$	\$
Balance – beginning of period	536,353	363,136
Stock options granted <sup>(1)</sup>	587,500	178,950
Agents warrants issued	134,217	-
Exercise of options	-	(5,733)
Balance – end of period	1,258,070	536,353

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

### 9. Related party transactions

During the period ended April 30, 2008, consulting fees of \$63,000 (2007 – \$36,000) were paid to companies controlled by current officers of the Company; and consulting fees of \$2,256 (2007 – \$3,125) were paid to a company controlled by a director. All amounts were fully paid as at April 30, 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.

# **Grizzly Diamonds Ltd.**

## **Notes to Financial Statements**

**Three and nine months ended April 30, 2008 and 2007**

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### **11. Subsequent events**

Subsequent to the period ended April 30, 2008, Grizzly was awarded a number of metallic mineral permits, which include the rights to subsurface potash, by application and bid process in east-central Alberta along the Saskatchewan-Alberta border. The lands acquired for potash exploration total more than 500,000 acres.