Grizzly Diamonds Ltd.

Financial Statements
Three months ended October 31, 2008 and 2007

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 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) October 31, 2008 $	(audited) July 31, 2008 $
Assets		
Current assets		
Cash and cash equivalents	**1,324,609**	1,227,150
Restricted cash (note 5)	**25,000**	25,000
Accounts receivable	**121,997**	163,802
Marketable securities (note 6)	**23,000**	79,000
Prepaid expenses	**21,800**	30,650
	1,516,406	1,525,602
Restricted cash (note 5)	**28,200**	28,200
Mineral properties (note 7)	**7,909,410**	7,263,369
	9,454,016	8,817,171
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**426,480**	396,440
Future income taxes	**908,730**	916,010
	1,335,210	1,312,450
Shareholders' equity		
Share capital (note 8)	**8,789,447**	7,987,153
Contributed surplus (note 9)	**1,318,397**	1,318,397
Accumulated other comprehensive loss	**(64,775)**	(16,055)
Deficit	**(1,924,263)**	(1,784,774)
	8,118,806	7,504,721
	9,454,016	8,817,171

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, 2008 and 2007

	(unaudited)	(unaudited)
	2008	2007
	$	$
Revenue		
Interest	**6,677**	14,990
Expenses		
Advertising and promotion	**5,643**	4,997
Office	**15,463**	8,175
Conferences and corporate travel	**578**	8,238
Corporate filing and transfer fees	**3,926**	2,810
Professional fees	**8,019**	11,590
Consulting fees	**51,074**	70,534
	84,703	106,344
	(78,026)	(91,354)
Other expenses		
Stock-based compensation (note 8)	**-**	(19,500)
Write down of mineral properties (note 7)	**(61,463)**	-
Net loss for the period	**(139,489)**	(110,854)
Deficit - beginning of period	**(1,784,774)**	(851,397)
Deficit - end of period	**(1,924,263)**	(962,251)
Basic and diluted net loss per common share	**(0.01)**	(0.01)
Weighted average number of common shares outstanding	**20,116,136**	15,761,706

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Comprehensive Loss
Three months ended October 31, 2008 and 2007

	2008	2007
	$	$
Net loss for the period	**(139,489)**	(110,854)
Other comprehensive loss:		
Unrealized loss on available for sale investments, net of future income taxes of $7,280	**(48,720)**	-
Comprehensive loss for the period	**(188,209)**	(110,854)

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Cash Flows
Three months ended October 31, 2008 and 2007

	(unaudited) 2008 $	(unaudited) 2007 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	**(139,489)**	(110,854)
Items not affecting cash and cash equivalents		
Stock-based compensation	**-**	19,500
Write down of mineral properties	**61,463**	-
	(78,026)	(91,354)
Net change in non-cash working capital items	**80,695**	(74,575)
	2,669	(165,920)
Investing activities		
Mineral properties	**(707,504)**	(478,882)
Financing activities		
Issuance of shares	**810,600**	-
Share issuance costs	**(8,306)**	-
	802,294	-
Increase (decrease) in cash and cash equivalents	**97,459**	(644,802)
Cash and cash equivalents - beginning of period	**1,227,150**	1,451,409
Cash and cash equivalents - end of period	**1,324,609**	806,607
Cash and cash equivalents consist of:		
Cash on deposit with financial institutions	**1,324,609**	806,607

See accompanying notes to financial statements

1. Nature of operations and going concern

Grizzly Diamonds Ltd. ("Grizzly" or "the Company") 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.

The Company has an accumulated deficit of $1,924,263 at October 31, 2008. Working capital is $1,089,926 at October 31, 2008. The Company's ability to continue as a going concern is dependent on the Company being able to satisfy its liabilities as they become due to obtain the necessary financing to complete the exploration and development of its mineral interests, the attainment of profitable mining operations, or the receipt of proceeds from the disposition of its resource property interests. 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, 2008 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, 2008.

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

On August 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation" replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives.

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

Section 1400, "General Standards of Financial Statement Presentation", which include requirements to assess and disclose the Company's ability to continue as a going concern.

The additional disclosures, required as a result of the adoption of these standards, have been included in notes 1 and 11.

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.

6. Marketable securities

As at October 31, 2008	**Fair value** $	**Carrying value** $
Shear Minerals Ltd.		
200,000 common shares	16,000	16,000
Takara Resources Inc.		
200,000 common shares	5,000	5,000
Nordic Diamonds Ltd.		
200,000 common shares	2,000	2,000
	23,000	**23,000**
As at July 31, 2008		
Shear Minerals Ltd.		
200,000 common shares	49,000	49,000
Takara Resources Inc.		
200,000 common shares	20,000	20,000
Nordic Diamonds Ltd.		
200,000 common shares	10,000	10,000
	79,000	**79,000**

7. Mineral properties

	Alberta Diamond Properties	BC Precious Mineral Properties	Alberta Industrial Mineral Properties	Total
Ownership interest (%)	49-100	100	100	**49-100**
	$	$	$	$
Balance, July 31, 2007	2,790,573	1,010,095	-	**3,800,668**
Fieldwork	14,790	55,167	-	**69,957**
Drilling	-	377,790	-	**377,790**
Analysis	5,770	25,365	-	**31,135**
Balance, October 31, 2007	2,811,133	1,468,417	-	**4,279,550**
Acquisition costs	1,250	135,924	109,378	**246,552**
Fieldwork	343,206	214,680	11,382	**569,718**
Geophysics	626,818	361,131	-	**987,949**
Drilling	1,035,307	-	-	**1,035,307**
Analysis	46,061	98,232	-	**144,293**
Balance, July 31, 2008	4,863,775	2,278,384	121,210	**7,263,369**
Acquisition costs	6,250	14,172	30,000	**50,422**
Fieldwork	90,785	59,991	16,390	**167,166**
Geophysics	16,375	24,247	-	**40,622**
Drilling	266,947	152,191	-	**419,138**
Analysis	15,892	13,840	424	**30,156**
Write-downs	-	(61,463)	-	**(61,463)**
Balance, October 31, 2008	**5,260,024**	**2,481,362**	**168,024**	**7,909,410**
Balances				
Acquisition	293,076	388,022	138,128	**819,226**
Exploration	4.966,948	2,093,340	29,896	**7,090,184**
Balance, October 31, 2008	**5,260,024**	**2,481,362**	**168,024**	**7,909,410**

a) BC Precious Mineral Properties

Ant

During the three months ended October 31, 2008, management determined that the Ant property lacked merit relative to other opportunities and has forfeited its option to acquire a 51% interest in the property. As a result, the Company recorded a write-off in the statement of loss and deficit representing the carrying value of the property.

French

During the three months ended October 31, 2008, the Company signed a letter of intent ("LOI") with Fractal Mining Corporation ("Fractal") whereby Fractal has the option to earn a 70% interest in Grizzly's French Property. Under the terms of the LOI, upon signing a formal agreement, Fractal will pay the Company $5,000 and issue 50,000 common shares of Fractal. To earn a 70% interest in the property, Fractal must issue an additional 150,000 common shares of Fractal and incur a minimum of $500,000 in exploration expenditures on the property prior to the third anniversary of a formal agreement. The option is subject to finalization of a formal agreement, due diligence, and regulatory approval.

8. Share capital

Shares

Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

Issued:

	Period ended October 31, 2008		Year ended July 31, 2008	
	Common Shares	Amount	Common Shares	Amount
	#	$	#	$
Balance – beginning of period	19,501,069	7,987,153	15,761,706	5,096,356
Shares issued for cash	870,556	810,600	3,639,363	3,890,200
Shares issued for mineral properties	-	-	100,000	104,500
Reclassified from contributed surplus	-	-	-	78,000
Share issuance costs	-	(8,306)	-	(533,037)
Future income taxes	-	-	-	(648,866)
Balance – end of period	20,371,625	8,789,447	19,501,069	7,987,153

On August 27, 2008, the Company closed a non-brokered private placement offering ("Offering") of an aggregate of 271,000 flow-through units ("FT Units") at a price of $1.00 per FT Unit, and 599,556 non-flow-through units ("Units") at a price of $0.90 per Unit, for gross proceeds of $810,600. Each FT Unit consisted of one flow-through common share ("FT Share") and one-half of a non-transferable share purchase warrant ("FT Unit Warrant") where each whole FT Unit Warrant entitles the holder to acquire one additional common share at a price of $1.35 until August 27, 2010. Each Unit consisted of one common share and one-half of a non-transferable share purchase warrant ("Warrant") where each whole Warrant entitles the holder to acquire one additional common share at a price of $1.25 until August 27, 2010.

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 commons 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, 2008		**Year ended July 31, 2008**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance – beginning of period	1,975,000	0.94	1,265,000	0.78
Granted	-	-	950,000	1.18
Cancelled	-	-	(90,000)	1.10
Exercised	-	-	(150,000)	1.00
Balance – end of period	1,975,000	0.94	1,975,000	0.94

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

Period ended October 31, 2008			**Year ended July 31, 2008**		
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	1.2	575,000	0.35	1.4
325,000	1.22	2.2	325,000	1.22	2.5
25,000	0.89	3.0	25,000	0.89	3.2
100,000	1.15	3.5	100,000	1.15	3.8
100,000	1.20	3.8	100,000	1.20	4.1
50,000	1.50	3.8	50,000	1.50	4.1
100,000	1.05	4.1	100,000	1.05	4.4
600,000	1.20	4.4	600,000	1.20	4.6
100,000	1.00	4.6	100,000	1.00	4.9
1,975,000	0.94	3.0	1,975,000	0.94	3.2

Warrants

The following table summarizes activity related to warrants:

	Period ended October 31, 2008		Year ended July 31, 2008	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
	#	$	#	$
Balance – beginning of period	2,048,827	1.38	1,244,077	1.50
Issued	435,278	1.28	2,048,827	1.38
Expired	-	-	(1,244,077)	1.50
Balance – end of period	2,484,105	1.36	2,048,827	1.38

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

Period ended October 31, 2008			Year ended July 31, 2008		
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	1.1	1,259,180	1.50	1.4
237,927	1.10	1.1	237,927	1.10	1.4
485,500	1.25	1.4	485,500	1.25	1.7
66,220	1.00	1.4	66,220	1.00	1.7
299,778	1.25	1.8	-	-	-
135,500	1.35	1.8	-	-	-
2,484,105	1.36	1.3	2,048,827	1.50	1.5

9. Contributed Surplus

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

	Period ended October 31, 2008	**Year ended July 31, 2008**
	$	$
Balance – beginning of period	1,318,397	536,353
Stock options granted[1]	-	860,044
Exercise of options	-	(78,000)
Balance – end of period	1,318,397	1,318,397

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

10. Related party transactions

During the period ended October 31, 2008, consulting fees of $31,000 (2007 – $21,000) were paid to companies controlled by current officers of the Company; and consulting fees of $1,000 (2007 – $1,000) were paid to a company controlled by a director. All amounts were fully paid as at October 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.

11. Financial instruments

Risk management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

Capital risk

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain title to and explore its mineral properties. The capital structure of the Company consists of cash and share capital.

Credit risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed to or owing by the Company. Management's assessment of the Company's exposure to credit risk is low despite a substantial amount of the Company's accounts receivable is concentrated with the Government of Canada for the reimbursement of goods and services tax input tax credits.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

Market risk

Movements in risk factors, such as market price risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals. The Company's investments in marketable securities (note 6) are subject to market and liquidity risk.