

Grizzly Diamonds Ltd.

Financial Statements

Three and six months ended January 31, 2009 and 2008

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at January 31, 2009, 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, 2009	(audited) July 31, 2008
Assets	\$	\$
Current assets		
Cash and cash equivalents	677,201	1,227,150
Restricted cash (note 5)	25,000	25,000
Accounts receivable	141,368	163,802
Marketable securities	29,875	79,000
Prepaid expenses	12,950	30,650
	886,394	1,525,602
Restricted cash (note 5)	28,200	28,200
Mineral properties (note 7)	8,106,285	7,263,369
	9,020,879	8,817,171
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	53,146	396,440
Future income taxes	908,990	916,010
	962,136	1,312,450
Shareholders' equity		
Share capital (note 8)	8,876,347	7,987,153
Contributed surplus (note 9)	1,321,997	1,318,397
Accumulated other comprehensive loss	(63,035)	(16,055)
Deficit	(2,076,566)	(1,784,774)
	8,058,743	7,504,721
	9,020,879	8,817,171

Approved by the Board of Directors

Signed "Brian Testo" Director

Signed "Douglas Turnbull" Director

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Net Loss and Deficit
(unaudited)

	Three months ended January 31 2009 \$	Three months ended January 31 2008 \$	Six months ended January 31 2009 \$	Six months ended January 31 2008 \$
Revenue				
Interest	8,702	22,351	15,379	37,341
Expenses				
Advertising and promotion	3,331	4,570	8,974	9,567
Office	37,164	10,725	52,627	18,900
Conferences and corporate travel	21,022	26,818	21,600	35,056
Corporate filing and transfer fees	4,281	5,307	8,207	8,117
Professional fees	16,191	5,351	24,210	16,941
Consulting fees	79,016	60,031	130,090	130,565
	161,005	112,802	245,708	219,146
	(152,303)	(90,451)	(230,329)	(181,805)
Other expenses				
Stock-based compensation (note 8)	-	(119,500)	-	(139,000)
Write down of mineral properties (note 7)	-	-	(61,463)	-
Net loss for the period	(152,303)	(209,951)	(291,792)	(320,805)
Deficit - beginning of period	(1,924,263)	(962,251)	(1,784,774)	(851,397)
Deficit - end of period	(2,076,566)	(1,172,202)	(2,076,566)	(1,172,202)
Basic and diluted net loss per common share	(0.01)	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding	20,441,190	16,884,020	20,278,663	16,502,235

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Comprehensive Loss
(unaudited)

	Three months ended January 31 2009 \$	Three months ended January 31 2008 \$	Six months ended January 31 2009 \$	Six months ended January 31 2008 \$
Net loss for the period	(152,303)	(209,951)	(291,792)	(320,805)
Other comprehensive loss:				
Unrealized gain (loss) on available for sale investments, net of future income taxes	1,740	-	(46,980)	-
Comprehensive loss for the period	(150,563)	(209,951)	(338,772)	(320,805)

See accompanying notes to financial statements

Grizzly Diamonds Ltd.
Statements of Cash Flows
(unaudited)

	Three months ended January 31 2009 \$	Three months ended January 31 2008 \$	Six months ended January 31 2009 \$	Six months ended January 31 2008 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(152,303)	(209,951)	(291,792)	(320,805)
Items not affecting cash and cash equivalents				
Stock-based compensation	-	119,500	-	139,000
Write down of mineral properties	-	-	61,463	-
	(152,303)	(90,451)	(230,329)	(181,805)
Net change in non-cash working capital items	(383,855)	458,927	(303,160)	384,361
	(536,158)	368,476	(533,489)	202,556
Investing activities				
Mineral properties	(201,750)	(557,789)	(909,254)	(1,036,671)
Financing activities				
Issuance of shares	100,000	2,769,200	910,600	2,769,200
Share issuance costs	(9,500)	(43,741)	(17,806)	(43,471)
	90,500	2,725,459	892,794	2,725,459
Increase (decrease) in cash and cash equivalents	(647,408)	2,536,146	(549,949)	1,891,344
Cash and cash equivalents - beginning of period	1,324,609	806,607	1,227,150	1,451,409
Cash and cash equivalents - end of period	677,201	3,342,753	677,201	3,342,753
Cash and cash equivalents consist of:				
Cash on deposit with financial institutions	677,201	3,342,753	677,201	3,342,753

See accompanying notes to financial statements

Grizzly Diamonds Ltd.

Notes to Financial Statements

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(unaudited)

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 \$2,076,566 at January 31, 2009. Working capital is \$833,248 at January 31, 2009. 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.

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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 (2008 – \$25,000) as security for corporate credit card liabilities. The Company also has restricted cash in the amount of \$28,200 (2008 - \$28,200) relating to two letters of guarantee for reclamation work in order to facilitate exploration in certain mineral property areas.

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Notes to Financial Statements

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6. 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	80,250	111,390	-	191,640
Geophysics	274,293	50,000	-	324,293
Drilling	38,932	377,789	-	416,721
Analysis	5,770	98,247	-	104,017
Balance, January 31, 2008	3,189,818	1,647,521	-	4,837,339
Acquisition costs	1,250	135,924	109,378	246,552
Fieldwork	277,746	158,458	11,382	447,586
Geophysics	352,525	311,131	-	663,656
Drilling	996,375	-	-	996,375
Analysis	46,061	25,350	-	71,411
Balance, July 31, 2008	4,863,775	2,278,384	121,210	7,263,369
Acquisition costs	6,250	4,297	53,750	64,297
Fieldwork	118,090	89,556	19,665	227,311
Geophysics	17,125	24,246	-	41,371
Drilling	276,310	152,191	-	428,501
Analysis	113,220	29,255	424	142,899
Write-downs	-	(61,463)	-	(61,463)
Balance, January 31, 2009	5,394,770	2,516,466	195,049	8,106,285
Balances				
Acquisition	293,076	378,147	163,128	834,351
Exploration	5,101,694	2,138,319	31,921	7,271,934
Balance, January 31, 2009	5,394,770	2,516,466	195,049	8,106,285

a) BC Precious Mineral Properties

Ant

During the six months ended January 31, 2009, 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.

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French

On December 15, 2008, the Company signed an option agreement with a private company whereby Grizzly grants the option to the private company to earn a 70% interest in the French Property. For granting the option, Grizzly received \$5,000 and 50,000 common shares of the private company. To earn a 70% interest in the property, the private company must issue an additional 150,000 common shares and incur a minimum of \$500,000 in exploration expenditures on the property prior to December 15, 2011.

8. Share capital

Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Period ended January 31, 2009		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	1,070,556	910,600	3,639,363	3,890,200
Shares issued for mineral properties	-	-	100,000	104,500
Reclassified from contributed surplus	-	-	-	78,000
Share issuance costs	-	(21,406)	-	(533,037)
Future income taxes	-	-	-	(648,866)
Balance – end of period	20,571,625	8,876,347	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.

On December 30, 2008, the Company closed an Offering of 200,000 FT Units at a price of \$0.50 per FT Unit. Each FT Unit consisted of one FT share and one FT Unit Warrant where each whole FT Unit Warrant entitles the holder to acquire one additional common share at a price of \$0.75 until December 30, 2010. In connection with the Offering, the Company paid to the agent a cash fee of \$8,000 and issued non-transferable warrants to acquire 20,000 common shares at a price of \$0.50 until December 30, 2010.

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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 January 31, 2009		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 January 31, 2009			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	0.9	575,000	0.35	1.4
	325,000	1.22	2.0	325,000	1.22	2.5
	25,000	0.89	2.7	25,000	0.89	3.2
	100,000	1.15	3.3	100,000	1.15	3.8
	100,000	1.20	3.6	100,000	1.20	4.1
	50,000	1.50	3.6	50,000	1.50	4.1
	100,000	1.05	3.9	100,000	1.05	4.4
	600,000	1.20	4.1	600,000	1.20	4.6
	100,000	1.00	4.4	100,000	1.00	4.9
	1,975,000	0.94	2.7	1,975,000	0.94	3.2

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Warrants

The following table summarizes activity related to warrants:

	Period ended January 31, 2009		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	555,278	1.16	2,048,827	1.38
Expired	-	-	(1,244,077)	1.50
Balance – end of period	2,604,105	1.33	2,048,827	1.38

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

	Period ended January 31, 2009			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	0.9	1,259,180	1.50	1.4
	237,927	1.10	0.9	237,927	1.10	1.4
	485,500	1.25	1.2	485,500	1.25	1.7
	66,220	1.00	1.2	66,220	1.00	1.7
	299,778	1.25	1.6	-	-	-
	135,500	1.35	1.6	-	-	-
	100,000	0.75	1.9	-	-	-
	20,000	0.50	1.9	-	-	-
	2,604,105	1.33	1.1	2,048,827	1.50	1.5

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9. Contributed Surplus

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

	Period ended January 31, 2009	Year ended July 31, 2008
	\$	\$
Balance – beginning of period	1,318,397	536,353
Options and warrants granted ⁽¹⁾	3,600	860,044
Exercise of options	-	(78,000)
Balance – end of period	<u>1,321,997</u>	<u>1,318,397</u>

(1) Granted or vesting in the period.

10. Related party transactions

During the period ended January 31, 2009, consulting fees of \$67,000 (2008 – \$42,000) were paid to companies controlled by current officers of the Company; and consulting fees of \$1,000 (2008 – \$1,000) were paid to a company controlled by a director. All amounts were fully paid as at January 31, 2009 and 2008.

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.

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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.

12. Subsequent events

Subsequent to the period, Grizzly signed an option agreement with a private company to acquire 100% mineral interest in the Sidley-Dayton Gold Property. The agreement covers a large contiguous block of land of approximately 56,000 acres, adjacent to Grizzly's existing Greenwood Property and brings the total Greenwood Property to about 135,000 acres.