

Grizzly Diamonds Ltd.

Consolidated Financial Statements
For the years ended July 31, 2009 and 2008



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

AUDITORS' REPORT

To the Shareholders of **Grizzly Diamonds Ltd.**

We have audited the consolidated balance sheets of **Grizzly Diamonds Ltd.** as at July 31, 2009 and 2008 and the consolidated statements of net loss and deficit, comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
October 9, 2009

Stout & Company LLP

Chartered Accountants

Grizzly Diamonds Ltd.

Consolidated Balance Sheets

As at July 31, 2009 and 2008

	2009	2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 3)	1,245,382	1,227,150
Restricted cash (note 4)	25,000	25,000
Accounts receivable	53,795	163,802
Marketable securities	23,175	79,000
Prepaid expenses	6,718	30,650
	<u>1,354,070</u>	1,525,602
Restricted cash (note 4)	28,200	28,200
Investment in 072261 BC Ltd. (note 6)	62,839	-
Mineral properties (note 5)	8,399,013	7,263,369
	<u>9,844,122</u>	8,817,171
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	178,379	396,440
Future income taxes (note 7)	814,727	916,010
	<u>993,106</u>	1,312,450
Shareholders' equity		
Deficit	(2,239,185)	(1,784,774)
Accumulated other comprehensive loss	(68,865)	(16,055)
	<u>(2,308,050)</u>	(1,800,829)
Share capital (note 8)	9,781,792	7,987,153
Contributed surplus (note 9)	1,377,274	1,318,397
	<u>8,851,016</u>	7,504,721
	<u>9,844,122</u>	8,817,171

Approved by the Board of Directors

Signed "Brian Testo" Director

Signed "Douglas Turnbull" Director

See accompanying notes to consolidated financial statements

Grizzly Diamonds Ltd.
Consolidated Statements of Net Loss and Deficit
For the years ended July 31, 2009 and 2008

	2009	2008
	\$	\$
Revenue		
Interest	17,817	76,698
Expenses		
Advertising and promotion	30,648	38,137
Office and sundry	68,693	71,054
Conferences and corporate travel	54,086	44,744
Corporate filing and transfer fees	19,130	21,443
Professional fees	83,210	60,078
Consulting fees	278,104	258,696
	<u>533,871</u>	<u>494,152</u>
	(516,054)	(417,454)
Other expenses		
Stock-based compensation (note 8)	(40,500)	(683,000)
Write down of mineral properties (note 5)	(61,463)	-
	<u>(618,017)</u>	<u>(1,100,454)</u>
Loss before income taxes	(618,017)	(1,100,454)
Future income tax benefit (note 7)	<u>163,606</u>	<u>167,077</u>
Net loss for the year	(454,411)	(933,377)
Deficit - beginning of year	<u>(1,784,774)</u>	<u>(851,397)</u>
Deficit - end of year	<u>(2,239,185)</u>	<u>(1,784,774)</u>
Basic and diluted net loss per common share	<u>(0.02)</u>	<u>(0.05)</u>
Weighted average number of common shares outstanding	<u>20,832,036</u>	<u>17,687,083</u>

See accompanying notes to consolidated financial statements

Grizzly Diamonds Ltd.
Consolidated Statements of Comprehensive Loss
For the years ended July 31, 2009 and 2008

	2009	2008
	\$	\$
Net loss for the year	(454,411)	(933,377)
Other comprehensive loss:		
Unrealized loss on available for sale marketable securities, net of future income taxes of \$7,890 (2008 – \$2,945).	<u>(52,810)</u>	<u>(16,055)</u>
Comprehensive loss for the year	<u>(507,221)</u>	<u>(949,432)</u>

See accompanying notes to consolidated financial statements

Grizzly Diamonds Ltd.
Consolidated Statements of Cash Flows
For the years ended July 31, 2009 and 2008

	2009	2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(454,411)	(933,377)
Items not affecting cash and cash equivalents		
Stock-based compensation	40,500	683,000
Write down of mineral properties	61,463	-
Future income tax benefit	(163,606)	(167,077)
	<u>(516,054)</u>	<u>(417,454)</u>
Net change in non-cash working capital items	<u>(84,122)</u>	115,189
	<u>(600,176)</u>	<u>(302,265)</u>
Investing activities		
Mineral properties	(1,169,482)	(3,456,201)
Purchase of investment in 072261 BC Ltd.	(37,839)	-
	<u>(1,207,321)</u>	<u>(3,456,201)</u>
Financing activities		
Issuance of shares	1,897,499	3,890,200
Share issuance costs	(71,770)	(355,993)
	<u>1,825,729</u>	<u>3,534,207</u>
Increase (decrease) in cash and cash equivalents	18,232	(224,259)
Cash and cash equivalents - beginning of year	1,227,150	1,451,409
Cash and cash equivalents - end of year	1,245,382	1,227,150
Cash and cash equivalents consist of:		
Cash on deposit with financial institution	<u>1,245,382</u>	<u>1,227,150</u>

The non-cash transactions described in notes 5, 6 and 8 have been excluded from the statement of cash flows.

See accompanying notes to consolidated financial statements

Grizzly Diamonds Ltd.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2009 and 2008

1. Nature of operations

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 \$2,239,185 at July 31, 2009. Working capital is \$1,175,691 at July 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 properties, the attainment of profitable mining operations, or the receipt of proceeds from the disposition of its 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. Accounting policies

Principles of consolidation

These consolidated financial statements of Grizzly are prepared in accordance with accounting principles generally accepted in Canada (“GAAP”). The consolidated financial statements of Grizzly include the accounts of Grizzly and its wholly owned subsidiary, Alberta Potash Corp. The consolidated financial statements use the Canadian Dollar as the unit of measurement.

Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with financial institutions and readily convertible guaranteed investment certificates.

Mineral properties

Mineral property acquisition costs and exploration costs directly related to specific properties are deferred until the properties are brought into production, sold or abandoned. All other costs, including administrative overhead are expensed as incurred. If the properties are put into commercial production, the acquisition and exploration expenditures will be depleted using the units of production basis based upon the proven reserves available. If the properties are sold or abandoned, these expenditures will be written off.

Where the Company receives payments under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the property to the extent of costs incurred, with any excess included in net income.

Grizzly Diamonds Ltd.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2009 and 2008

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Where there is evidence of impairment, the net carrying amount of the asset will be written down to its fair value. Impairment losses are not reversed even if circumstances change and the net recoverable amount subsequently increases.

The amounts shown as mineral properties represent unamortized costs to date and do not necessarily reflect present or future values.

Income taxes

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of future tax assets recognized is limited to the amount that is more likely than not to be realized.

Flow-through shares

The proceeds of flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) (“Act”) are included in share capital. The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly these expenditures provide no income tax deduction to the Company.

Share capital is reduced and a future tax liability is recorded equal to the amount of future income taxes payable by the Company when the expenditures are renounced to the holders of these shares. Where at the time of renouncement the Company has unrecorded net tax assets exceeding the income tax effect of the deduction renounced, a corresponding future tax asset will be recognized. The amount of the net tax asset recognized is limited to the amount that is more likely than not to be realized.

Net loss per share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted net loss per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Diluted loss per share figures are equal to those of basic loss per share as the effects of stock options and warrants have been excluded since they are anti-dilutive.

Stock based compensation

Stock based compensation is accounted for using the fair value method whereby compensation expense related to these programs is recorded in the statement of net loss and deficit with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant and expensed over the vesting period. The fair value of warrants issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents warrants that may not vest, but accounts for forfeitures as they occur.

Grizzly Diamonds Ltd.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2009 and 2008

Mineral exploration tax credits

Federal, provincial and territorial taxation authorities provide companies with tax incentives for undertaking mineral exploration directives in certain areas. Mineral exploration tax credits on eligible mineral exploration expenditures incurred in the Province of British Columbia are treated as a reduction of the deferred exploration costs of the respective mineral properties.

Investments

Investments in which the Company exerts significant influence are accounted for using the equity method whereby the original cost of the investment is adjusted for the Company's share of earnings, losses and dividends.

Impairment of long-lived assets

In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value of the asset is not recoverable from undiscounted cash flows attributable to the asset, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to the assessment of mineral property impairments and the assumptions used in determining stock based compensation. Actual results could differ from those estimates.

Asset retirement obligation

The Company recognizes liabilities for retirement obligations associated with long-lived assets, which includes abandonment of mineral properties and returning property to its original condition. The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value of the liability is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties and deferred exploration costs.

New accounting standards and policies

Financial instruments – Presentation and Financial instruments – Disclosure

Effective August 1, 2008, the Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862 – Financial Instruments - Disclosures and CICA Section 3863 – Financial Instruments – Presentation, to replace Section 3861 – Financial Instruments – Disclosure and Presentation. The new standards place increased emphasis on disclosure of the nature and risks associated with financial instruments and how the entity manages those risks. Disclosure required by these new standards are contained in note 11 to the consolidated financial statements.

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Notes to the Consolidated Financial Statements

For the years ended July 31, 2009 and 2008

Capital disclosures

Effective August 1, 2008, the Company has adopted CICA Section 1535 – Capital Disclosures which establishes standards for disclosing information about how capital is managed in order for a user of the consolidated financial statements to evaluate the Company’s objectives, policies, and processes for managing capital. Disclosure required by this new standard is contained in note 11 to the consolidated financial statements.

Financial statement presentation

Effective August 1, 2008, the Company has adopted the amended CICA Section 1400 – General Standards of Financial Statement Presentation, to include requirements to assess and disclose the Company’s ability to continue as a going concern. Disclosure required by this new standard is contained in note 1 to the consolidated financial statements.

Future accounting changes

The CICA has issued Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. The new accounting standard is effective for the Company’s interim and annual consolidated financial statements beginning August 1, 2009. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In February 2008, the Accounting Standards Board confirmed that Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective for the Company’s interim and annual financial statements beginning on August 1, 2011. The Company is currently evaluating the impact of the adoption of IFRS.

3. Cash and cash equivalents

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

4. Restricted cash

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.

Grizzly Diamonds Ltd.

Notes to the Consolidated Financial Statements

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5. 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
Acquisition costs	1,250	135,924	109,378	246,552
Fieldwork	357,996	269,848	11,832	639,676
Geophysics	626,818	361,131	-	987,949
Drilling	1,035,307	377,789	-	1,413,096
Analysis	51,831	123,597	-	175,428
Balance, July 31, 2008	4,863,775	2,278,384	121,210	7,263,369
Acquisition costs	14,383	131,427	62,944	208,754
Fieldwork	130,757	202,291	38,336	371,384
Geophysics	17,125	24,247	-	41,372
Drilling	276,310	152,191	-	428,501
Analysis	117,269	29,403	424	147,096
Write downs	-	(61,463)	-	(61,463)
Balance, July 31, 2009	5,419,619	2,756,480	222,914	8,399,013
Balances				
Acquisition	301,209	505,278	172,322	978,809
Exploration	5,118,410	2,251,202	50,592	7,420,204
Balance, July 31, 2009	5,419,619	2,756,480	222,914	8,399,013

a) Alberta Diamond Properties

During the year ended July 31, 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, Smoky the Bear, White Bear, and Preston Upon the Wolverine.

Legend

During the year ended July 31, 2006, the Company acquired a 100% interest in the Legend property and an 85% interest in the Little Legend property (collectively "Legend Property") from Blue Diamond Mining Corporation ("Blue") by paying \$12,500 and issuing 85,000 common shares recorded at a value of \$1.01 per share. The Company will issue an additional 15,000 common shares if kimberlite or related rock is discovered on the Legend Property. The Company agreed to carry the remaining 15% interest in the Little Legend property held by Grizzly Gold Inc. (a company controlled by a director and shareholder) to commercial production. Blue will retain a 2% Gross Overriding Royalty on all diamonds produced on the properties.

Grizzly Diamonds Ltd.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2009 and 2008

Call of the Wild

During the year ended July 31, 2006, the Company entered into an option agreement with Stornoway Diamond Corporation (“Stornoway”) whereby Stornoway has the right to earn up to a 70% interest in the Company’s Call of the Wild property.

During the year ended July 31, 2007, Stornoway completed its initial earn-in to a 51% interest in the property by flying the entire property with an airborne fixed wing magnetic survey and collecting twenty five diamond indicator samples. Stornoway may earn an additional 9% interest by incurring \$5,000,000 in exploration expenditures within five years and a further 10% interest (totaling 70%) by providing the Company with a bankable feasibility study.

Other

During the years ended July 31, 2004 and 2005, the Company acquired a 90% interest in a number of mineral claims situated in northern Alberta from Grizzly Gold Inc. The Company agreed to carry Grizzly Gold Inc.’s remaining 10% interest to commercial production and has the option to acquire up to an additional 5% interest in the properties upon payment of \$1,000,000 for each additional 1% interest.

b) BC Precious Mineral Properties

During the year ended July 31, 2008, the following properties were re-allocated for presentation purposes into one large area of interest renamed BC Precious Mineral Properties: Greenwood, Peak, French, Silver Bear, and Ant.

During the year ended July 31, 2009, Grizzly qualified to receive a Mining Exploration Tax Credit (“METC”) from the Government of British Columbia in the amount of \$33,888 pursuant to Section 25.1 of the British Columbia Income Tax Act. The METC has been credited against exploration expenditures made by Grizzly on its BC Precious Mineral Properties.

Greenwood

During the year ended July 31, 2008, Grizzly signed two option agreements to acquire a 100% interest in the Greenwood property. To acquire the interest, Grizzly must issue payments totalling \$235,000 cash, issue 325,000 common shares of Grizzly on or before March 1, 2012, and complete exploration expenditures on the property totalling \$2.1 Million on or before March 1, 2013. The Vendor will retain a combined 2.5% net smelter royalty on the property which Grizzly can reduce by up to 1.5% for a price of \$1,500,000. To date, Grizzly has issued payments totaling \$47,500 and issued 100,000 common shares of Grizzly; of which payments of \$25,000 and 50,000 common shares were issued during the year ended July 31, 2009.

During the year ended July 31, 2009, Grizzly signed an option agreement to acquire a 100% interest in the Sidley Gold-Dayton Copper property. To acquire the interest, Grizzly must issue payments totalling \$185,000 cash, issue 200,000 common shares of Grizzly, and complete exploration expenditures on the property totalling \$1.4 Million, all before February 17, 2013. The vendor will retain a 2.5% net smelter royalty which Grizzly can reduce by up to 1.5% for a price of \$1,500,000. During the year, Grizzly issued payments of \$10,000 cash and issued 25,000 common shares.

Peak and French

During the year ended July 31, 2008, the Company completed its exploration expenditure commitments on the Peak and French properties from the original option agreements with Valley Gold Inc. (“Valley”) and an individual. Valley and an individual will retain a 3% NSR on the Peak property and a 2% NSR on the French property. The Company has a first right of refusal to purchase either NSR.

On December 15, 2008, the Company signed an option agreement with a company whereby Grizzly grants the option to the 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 company with a deemed value of \$4,875. To earn a 70% interest in the property, the company must issue Grizzly an additional 150,000 common shares prior to December 15, 2011 and incur a minimum of \$500,000 in exploration expenditures on the property prior to December 15, 2012.

Grizzly Diamonds Ltd.

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For the years ended July 31, 2009 and 2008

Silver Bear

During the year ended July 31, 2008, the Company issued its final share payment of 50,000 common shares pursuant to an option agreement with two individuals for the Silver Bear property. The common shares were issued at \$0.97 per share. The two individuals will retain a 3% NSR on the property which Grizzly can reduce by up to 2% for a price of \$1,000,000.

Ant

During the year ended July 31, 2009, management determined that the Ant property lacked merit relative to other opportunities and has forfeited its option to acquire a 100% interest in the property. As a result, the Company recorded a write-off in the consolidated statement of loss and deficit representing the carrying value of the property.

c) Alberta Industrial Mineral Properties

During the years ended July 31, 2009 and 2008, the Company 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.

Rattlesnake North

During the year ended July 31, 2008, the Company entered into an option agreement with Shear Minerals Ltd. ("Shear"), a company with a former common director, whereby Shear has the right to earn up to a 70% interest in the Company's 50,000 acre Rattlesnake North property. As part of the option agreement, Shear must pay Grizzly \$25,000 and issue 200,000 common shares of Shear. During the year ended July 31, 2009, Shear issued Grizzly 200,000 common shares and subsequently forfeited their option on the property. The \$25,000 was not paid.

Teddybear-2

During the year ended July 31, 2008, the Company entered into an option agreement with Western Standard Metals Ltd. ("WSM") (formerly Nordic Diamonds Ltd.) whereby WSM has the right to earn up to a 70% interest in the Company's 50,000 acre Teddybear-2 property. As part of the option agreement, WSM paid Grizzly \$25,000 and issued 200,000 common shares of WSM. During the year ended July 31, 2009, WSM forfeited their option on the property.

Teddybear-3

During the year ended July 31, 2008, the Company entered into an option agreement with Takara Resources Ltd. ("Takara"), a company with a common director, whereby Takara has the right to earn up to a 70% interest in the Company's 50,000 acre Teddybear-3 property. As part of the option agreement, Takara paid Grizzly \$25,000 and issued 200,000 common shares of Takara. During the year ended July 31, 2009, Takara forfeited their option on the property.

6. Investment in 072261 BC Ltd.

During the year ended July 31, 2009, Grizzly acquired a 50% interest in 072261 BC Ltd. ("BCco") from two arm's length individuals (the "Vendors"). To acquire the interest, Grizzly paid the Vendors \$25,000 cash and issued 78,125 common shares of Grizzly. Grizzly has one director appointee on the board of BCco, representing 50% of the board. This investment is accounted for using the equity method.

BCco holds a 56% interest in the Rock Creek Joint Venture ("RC-JV"), giving Grizzly an indirect 28% interest in the RC-JV. The Rock Creek property, held by the RC-JV, is adjacent to and forms part of Grizzly's Greenwood area of interest, included in Grizzly's BC Precious Mineral Properties. The Rock Creek property is subject to net smelter royalties of 1.5% (to a maximum of \$250,000) and 3% (to a maximum of US \$3,000,000).

The cost of Grizzly's investment in 072261 BC Ltd. was \$62,839 at July 31, 2009.

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7. Income Taxes

The income tax provision differs from the amount computed by applying the statutory rates to pre-tax income as a result of the following:

	<u>2009</u>	<u>2008</u>
	\$	\$
Expected tax recovery at a rate of 29.71% (2008 – 31.54%)	183,613	347,083
Increase (decrease) resulting from:		
Stock based compensation	(12,033)	(215,418)
Share issuance costs	53,591	52,692
Changes in income tax rates	50,959	37,258
Change in temporary differences	(112,524)	(54,538)
	<u>163,606</u>	<u>167,077</u>
Future income tax benefit	163,606	167,077

The future income tax liability is comprised of the following tax affected temporary differences:

	<u>2009</u>	<u>2008</u>
	\$	\$
Mineral properties	1,371,336	1,397,467
Non-capital losses carried forward	(508,349)	(360,487)
Share issuance costs	(87,076)	(118,405)
Marketable securities	(9,434)	(2,565)
Valuation allowance	48,250	-
	<u>814,727</u>	<u>916,010</u>
Net recognized future income tax liability	814,727	916,010

The Company has incurred the following approximate non-capital losses for tax purposes, of which the benefit relating to \$1,840,000 has been recognized, and expire as follows:

<u>Year of origin</u>	<u>Non-capital loss</u>	<u>Year of expiry</u>
	\$	
2004	14,000	2014
2005	179,000	2015
2006	309,000	2026
2007	254,000	2027
2008	582,000	2028
2009	695,000	2029
	<u>2,033,000</u>	

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8. Share capital

Shares

Authorized:

Unlimited number of common shares
 Unlimited number of preferred shares

Issued:

	Year ended July 31, 2009		Year ended July 31, 2008	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Balance – beginning of year	19,501,069	7,987,153	15,761,706	5,096,356
Shares issued for cash	3,289,776	1,897,499	3,639,363	3,890,200
Shares issued for mineral properties (note 5)	75,000	32,500	100,000	104,500
Shares issued for investment (note 6)	78,125	25,000	-	-
Reclassified from contributed surplus	-	-	-	78,000
Share issuance costs	-	(90,147)	-	(533,037)
Future income taxes	-	(70,213)	-	(648,866)
Balance – end of year	22,943,970	9,781,792	19,501,069	7,987,153

During the year ended July 31, 2008, the Company issued 150,000 common shares from the exercise of options for gross proceeds of \$150,000. No options were exercised during the year ended July 31, 2009.

On April 30 and on June 30, 2009, Grizzly effected separate closings of a non-brokered private placement of an aggregate of 1,984,220 flow-through units (“FT Units”) at a price of \$0.45 per FT Unit, and 235,000 non-flow-through units (“Units”) at a price of \$0.40 per Unit for gross proceeds of \$986,899. Each FT Unit consisted of one flow-through share and one-half of a warrant, whereby each whole warrant entitles the holder to acquire one additional share at a price of \$0.65 expiring one year from issuance. Each Unit consisted of one common share and one warrant, whereby each warrant entitles the holder to acquire one additional share at a price of \$0.60 until April 29, 2011. In connection with the offering, the Company paid to the agent a cash fee of \$28,000 and issued non-transferable warrants to acquire 77,776 common shares at a price of \$0.45 until April 29, 2011.

As at July 31, 2009, Grizzly has incurred approximately \$160,900 of eligible flow-through expenditures relating to the above noted placements, and is committed to incur another \$732,000 by December 31, 2010.

On December 30, 2008, Grizzly closed a non-brokered private placement of 200,000 flow-through units (“FT Units”) at a price of \$0.50 per FT Unit. Each FT Unit consisted of one flow-through common share and one-half of a warrant, whereby each whole 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. The flow-through expenditure commitment has since been met.

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On August 27, 2008, Grizzly closed a non-brokered private placement 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 and one-half of a warrant, whereby 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 warrant, whereby each whole warrant entitles the holder to acquire one additional common share at a price of \$1.25 until August 27, 2010. The flow-through expenditure commitment has since been met.

On April 11, 2008, Grizzly closed a non-brokered private placement 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 warrant, whereby 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 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 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 warrant. Each Non-FT unit consisted of one common share of the Company and one-half of a warrant, whereby each whole warrant entitles the holder to acquire one additional common share at a price of \$1.50 until December 21, 2009. The flow-through expenditure commitment has since been met.

In connection with the offering, Grizzly also issued agent's warrants to acquire up to 237,927 units of the Company ("Agent's Units") at a price of \$1.10 per Agent's Unit until December 21, 2009. The Agent's Units are on the same terms as the Non-FT units in that they consist of one non-flow-through common share and one-half of a warrant.

On August 15, 2007, Grizzly entered into a one year 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 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 agreement terminated on August 14, 2008.

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.

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The following table summarizes activity related to stock options:

	Year ended July 31, 2009		Year ended July 31, 2008	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance – beginning of year	1,975,000	0.94	1,265,000	0.78
Granted	150,000	0.45	950,000	1.18
Expired	(200,000)	0.57	(90,000)	1.10
Exercised	-	-	(150,000)	1.00
Balance – end of year	1,925,000	0.94	1,975,000	0.94

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

July 31, 2009			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
425,000	0.35	0.4	575,000	0.35	1.4
275,000	1.22	1.5	325,000	1.22	2.5
25,000	0.89	2.2	25,000	0.89	3.2
100,000	1.15	2.8	100,000	1.15	3.8
100,000	1.20	3.1	100,000	1.20	4.1
50,000	1.50	3.1	50,000	1.50	4.1
100,000	1.05	3.4	100,000	1.05	4.4
600,000	1.20	3.6	600,000	1.20	4.6
100,000	1.00	3.9	100,000	1.00	4.9
150,000	0.45	4.6	-	-	-
1,925,000	0.94	2.6	1,975,000	0.94	3.2

All of the Company's outstanding options were exercisable as at July 31, 2009 and 2008.

The Company accounts for options granted under this plan and the stock option agreement with the agent in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and the life of the options.

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The Company recorded stock-based compensation expense in the amount of \$40,500 (2008 – \$683,000) in the consolidated statement of net loss and deficit for options vesting in the year. The stock-based compensation expense has been determined based on the fair value of an aggregate 150,000 (2008 – 1,025,000) options at the grant date, with a weighted average fair value of \$0.27 per option (2008 – \$0.67).

The Company has recorded share issuance costs in the amount of \$18,377 (2008 – \$177,044) relating to the Agent’s Units and Agent’s warrants issued to the agents during the year. The fair value of each Agent’s Unit and Agent’s warrant granted has been determined based on the fair value of 97,776 (2008 – 304,147) Agent’s Units and Agent’s warrants at the grant date, with a fair value of \$0.19 per Agent’s Unit and Agent’s warrant (2008 – \$0.58).

All of the Company’s options, agent’s units and agent’s warrants were issued with an exercise price greater than the market price on the grant date. The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended July 31, 2009	Year ended July 31, 2008
Risk-free interest rate	1.25%	3.35%
Expected volatility	80.0%	80.0%
Annual dividend yield	0.0%	0.0%
Expected life of options	4 years	4 years

Warrants

The following table summarizes activity related to warrants:

	Year ended July 31, 2009		Year ended July 31, 2008	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Balance – beginning of year	2,048,827	1.38	1,244,077	1.50
Issued	1,860,164	0.79	2,048,827	1.38
Expired	-	-	(1,244,077)	1.50
Balance – end of year	3,908,991	1.10	2,048,827	1.38

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

Number of warrants outstanding #	Weighted average exercise price \$	July 31, 2009	Number of warrants outstanding #	Weighted average exercise price \$	July 31, 2008
		Weighted average remaining contractual life Years			Weighted average remaining contractual life Years
1,259,180	1.50	0.4	1,259,180	1.50	1.4
237,927	1.10	0.4	237,927	1.10	1.4
485,500	1.25	0.7	485,500	1.25	1.7
66,220	1.00	0.7	66,220	1.00	1.7
426,555	0.65	0.7	-	-	-
565,555	0.65	0.9	-	-	-
299,778	1.25	1.1	-	-	-
135,500	1.35	1.1	-	-	-
100,000	0.75	1.4	-	-	-
20,000	0.50	1.4	-	-	-
235,000	0.60	1.7	-	-	-
77,776	0.45	1.7	-	-	-
3,908,991	1.10	0.8	2,048,827	1.38	1.5

9. Contributed surplus

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

	Year ended July 31, 2009	Year ended July 31, 2008
	\$	\$
Balance – beginning of year	1,318,397	536,353
Options granted	58,877	860,044
Exercise of options	-	(78,000)
Balance – end of year	1,377,274	1,318,397

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10. Related party transactions

During the year ended July 31, 2009, consulting fees of \$139,000 (2008 – \$84,000) were paid to companies controlled by current officers of the Company; consulting fees of \$1,000 (2008 – \$2,256) were paid to a company controlled by a former director. All amounts were fully paid as at July 31, 2009 and 2008.

No related party amounts were included in accounts receivable as at July 31, 2009 (2008 - \$50,000 included in account receivable).

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 and capital disclosures

Financial instrument classification

Grizzly's financial instruments recognized on the consolidated balance sheet consist of cash and cash equivalents, restricted cash, accounts receivable, marketable securities, and accounts payable and accrued liabilities.

Upon initial recognition, Grizzly has designated its cash and cash equivalents and restricted cash as held for trading, and accordingly it is recognized on the consolidated balance sheet at its fair value, and changes in fair value are recognized in net income in the period in which the change arises.

Accounts receivable have been classified as loans and receivables, and are measured at amortized cost.

Marketable securities have been classified as available-for-sale, and are carried at their fair value, and changes in fair value are recognized as a component of other comprehensive loss.

Accounts payable and accrued liabilities have been classified as other liabilities, and are measured at amortized cost.

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

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 in which they occur.

Grizzly has no unrecognized financial instruments or derivative financial instruments.

Capital management

Grizzly's capital consists of cash and cash equivalents and share capital.

Grizzly's objectives in managing its capital are: to maintain corporate and administrative functions necessary to support its operations and corporate functions; to perform mineral exploration activities on its exploration projects; and to seek out and acquire new projects of merit.

Grizzly manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

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Risk management

Grizzly may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of Grizzly'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.

Interest risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

Grizzly had \$1,245,382 in non-restricted cash at July 31, 2009, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is deemed to be immaterial by management of Grizzly.

Credit risk

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. Grizzly's credit risk is primarily attributable to its cash and cash equivalents and accounts receivable.

Grizzly has assessed its exposure to credit risk and has determined that such risk is minimal. Grizzly's cash and cash equivalents are held with a financial institution in Canada. Cash and cash equivalents held with a Canadian financial institution is guaranteed in full by the Crown in Right of Alberta. All of Grizzly's receivables are due from the Government of British Columbia for refundable mineral exploration tax credits and from the Government of Canada for goods and services tax receivable. Management does not consider this concentration of credit to pose any substantial risk to Grizzly.

Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, Grizzly's financial instruments will fluctuate because of changes in foreign exchange rates.

Grizzly primarily maintains its cash reserves in Canadian Dollars, however certain amounts are occasionally held in other currencies, and are therefore subject to fluctuations in foreign exchange rates. Grizzly's corporate costs and share capital, as well as Grizzly's reporting currency, is denominated in Canadian Dollars. Management has estimated the risk on foreign currency to be immaterial.

Liquidity risk

Liquidity risk is the risk that Grizzly will not meet its financial obligations as they fall due.

As at July 31, 2009, Grizzly's consolidated working capital is \$1,175,691, and it does not have any monetary long-term liabilities. The continuing operations of the Company are dependent upon its ability to obtain adequate financing and to commence profitable operations in the future. Grizzly may have to seek additional debt or equity financing, and there can be no assurance that such financing will be available on terms acceptable to Grizzly.

12. Comparative amounts

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

13. Subsequent events

Subsequent to July 31, 2009, Grizzly signed an asset purchase agreement to purchase all of Merit Mining Corp.'s ("Merit's") 44% interest in the RC-JV, bringing Grizzly's total interest in the RC-JV to 72% (note 6). To acquire Merit's interest, Grizzly must pay the vendors \$25,000 cash and issue 75,000 common shares of Grizzly.