

# **Grizzly Diamonds Ltd.**

Consolidated Financial Statements

**Three months ended October 31, 2009 and 2008**

To the shareholders of Grizzly Diamonds Ltd:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 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.**  
**Consolidated Balance Sheets**

	(unaudited) October 31, 2009	(audited) July 31, 2008
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	551,956	1,245,382
Restricted cash (note 5)	25,000	25,000
Accounts receivable	63,103	53,795
Marketable securities	41,926	23,175
Prepaid expenses	20,414	6,718
	<b>702,399</b>	1,354,070
<b>Restricted cash (note 5)</b>	<b>28,200</b>	28,200
<b>Investment in 072261 BC Ltd. (note 7)</b>	<b>62,839</b>	62,839
<b>Mineral properties (note 6)</b>	<b>8,903,274</b>	8,399,013
	<b>9,696,712</b>	9,844,122
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	67,898	178,379
Share subscriptions received (note 13)	25,000	-
	<b>92,898</b>	178,379
<b>Future income taxes</b>	<b>816,427</b>	814,727
	<b>909,325</b>	993,106
<b>Shareholders' equity</b>		
<b>Deficit</b>	<b>(2,343,893)</b>	(2,239,185)
<b>Accumulated other comprehensive loss</b>	<b>(51,814)</b>	(68,865)
	<b>(2,395,707)</b>	(2,308,050)
<b>Share capital (note 8)</b>	<b>9,805,820</b>	9,781,792
<b>Contributed surplus (note 9)</b>	<b>1,377,274</b>	1,377,274
	<b>8,787,387</b>	8,851,016
<b>Approved by the Board of Directors</b>	<b>9,696,712</b>	9,844,122
<b>Signed "Brian Testo" Director</b>		
<b>Signed "Douglas Turnbull" Director</b>		

See accompanying notes to consolidated financial statements

# Grizzly Diamonds Ltd.

## Consolidated Statements of Net Loss and Deficit

For the three months ended October 31, 2009 and 2008

	2009	2008
	\$	\$
<b>Revenue</b>		
Interest	979	6,677
<b>Expenses</b>		
Advertising and promotion	7,875	5,643
Office and sundry	15,873	15,463
Conferences and corporate travel	21,247	578
Corporate filing and transfer fees	2,530	3,926
Professional fees	4,842	8,019
Consulting fees	53,320	51,074
	105,687	84,703
	(104,708)	(78,026)
<b>Other expenses</b>		
Write down of mineral properties	-	(61,463)
<b>Net loss for the period</b>	(104,708)	(139,489)
<b>Deficit - beginning of period</b>	(2,239,185)	(1,784,774)
<b>Deficit - end of period</b>	(2,343,893)	(1,924,263)
<b>Basic and diluted net loss per common share</b>	(0.00)	(0.01)
<b>Weighted average number of common shares outstanding</b>	22,943,970	20,116,136

See accompanying notes to consolidated financial statements

# Grizzly Diamonds Ltd.

## Consolidated Statements of Comprehensive Income (Loss)

For the three months ended October 31, 2009 and 2008

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	2009	2008
	\$	\$
<b>Net loss for the year</b>	<b>(104,708)</b>	(139,489)
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale marketable securities, net of future income taxes of \$1,700 (2008 – \$7,280).	<u>17,051</u>	<u>(48,720)</u>
<b>Comprehensive loss for the year</b>	<b><u>(87,657)</u></b>	<b><u>(188,209)</u></b>

See accompanying notes to consolidated financial statements

**Grizzly Diamonds Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the three months ended October 31, 2009 and 2008**

	2009	2008
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(104,708)	(139,489)
Items not affecting cash and cash equivalents		
Write down of mineral properties	-	61,463
	<u>(104,708)</u>	<u>(78,026)</u>
Net change in non-cash working capital items	<u>(108,485)</u>	<u>80,695</u>
	<u>(213,193)</u>	<u>2,669</u>
<b>Investing activities</b>		
Mineral properties	<u>(477,261)</u>	<u>(707,504)</u>
	<u>(477,261)</u>	<u>(707,504)</u>
<b>Financing activities</b>		
Issuance of shares	-	810,600
Share issuance costs	<u>(2,972)</u>	<u>(8,306)</u>
	<u>(2,972)</u>	<u>802,294</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(693,426)</b>	<b>97,459</b>
<b>Cash and cash equivalents - beginning of year</b>	<b><u>1,245,382</u></b>	<b><u>1,227,150</u></b>
<b>Cash and cash equivalents - end of year</b>	<b><u>551,956</u></b>	<b><u>1,324,609</u></b>
<b>Cash and cash equivalents consist of:</b>		
Cash on deposit with financial institution	<u>551,956</u>	<u>1,324,609</u>

The non-cash transactions described in notes 7 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 three months ended October 31, 2009 and 2008

(unaudited)

### 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 \$2,343,893 at October 31, 2009. Working capital is \$609,501 at October 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. Basis of presentation

These unaudited interim financial statements should be read in conjunction with the Company’s July 31, 2009 audited consolidated financial statements and the notes thereto. These unaudited interim consolidated 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 consolidated financial statements for the year ended July 31, 2009.

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, 2009, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard does not have an impact on the Company’s consolidated financial statements.

### 4. 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.

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

### 5. 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.

### 6. Mineral properties

	<b>Alberta Diamond Properties</b>	<b>BC Precious Mineral Properties</b>	<b>Alberta Industrial Mineral Properties</b>	<b>Total 49-100</b>
Ownership interest (%)	49-100	72-100	100	<b>49-100</b>
	\$	\$	\$	\$
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, Oct 31, 2008	5,260,024	2,481,362	168,024	7,909,410
Acquisition costs	8,133	117,255	32,944	158,332
Fieldwork	39,972	176,188	21,946	238,106
Geophysics	750	-	-	750
Drilling	9,363	-	-	9,363
Analysis	101,377	15,563	-	116,940
Mineral tax credits	-	(33,888)	-	(33,888)
Balance, July 31, 2009	5,419,619	2,756,480	222,914	8,399,013
Acquisition costs	-	69,687	-	69,687
Fieldwork	3,910	120,943	2,941	127,794
Geophysics	-	185,416	-	185,416
Drilling	-	100,000	-	100,000
Analysis	-	21,364	-	21,364
<b>Balance, Oct 31, 2009</b>	<b>5,423,529</b>	<b>3,253,890</b>	<b>225,855</b>	<b>8,903,274</b>
<b>Balances</b>				
Acquisition	301,209	574,965	172,322	<b>1,048,496</b>
Exploration	5,122,320	2,678,925	53,533	<b>7,854,778</b>
<b>Balance, Oct 31, 2009</b>	<b>5,423,529</b>	<b>3,253,890</b>	<b>225,855</b>	<b>8,903,274</b>

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

### a) BC Precious Mineral Properties

#### Greenwood

On September 14, 2009, Grizzly signed an asset purchase agreement to purchase all of Merit Mining Corp.'s ("Merit's") 44% interest in the Rock Creek Joint Venture ("RC-JV"), bringing Grizzly's total interest in the RC-JV to 72%, up from 28% (note 7). To acquire Merit's interest, Grizzly paid the vendors \$25,000 cash and issued 75,000 common shares of Grizzly.

### 7. 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, 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 October 31, 2009.

### 8. Share capital

#### Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Period ended October 31, 2009		Year ended July 31, 2009	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Balance – beginning of period	22,943,970	9,781,792	19,501,069	7,987,153
Shares issued for cash	-	-	3,289,776	1,897,499
Shares issued for mineral properties (note 6)	75,000	27,000	75,000	32,500
Shares issued for investment (note 7)	-	-	78,125	25,000
Share issuance costs	-	(2,972)	-	(90,147)
Future income taxes	-	-	-	(70,213)
Balance – end of period	23,018,970	9,805,820	22,943,970	9,781,792

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

### 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 October 31, 2009		Year ended July 31, 2009	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance – beginning of period	1,925,000	0.94	1,975,000	0.94
Granted	-	-	150,000	0.45
Expired	-	-	(200,000)	0.57
Balance – end of period	1,925,000	0.94	1,925,000	0.94

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

Number of options outstanding #	Weighted average exercise price \$	October 31, 2009		July 31, 2009	
		Weighted average remaining contractual life Years	Number of options outstanding #	Weighted Average exercise price \$	Weighted average remaining contractual life Years
425,000	0.35	0.2	425,000	0.35	0.4
275,000	1.22	1.2	275,000	1.22	1.5
25,000	0.89	2.0	25,000	0.89	2.2
100,000	1.15	2.5	100,000	1.15	2.8
100,000	1.20	2.8	100,000	1.20	3.1
50,000	1.50	2.8	50,000	1.50	3.1
100,000	1.05	3.1	100,000	1.05	3.4
600,000	1.20	3.4	600,000	1.20	3.6
100,000	1.00	3.6	100,000	1.00	3.9
150,000	0.45	4.4	150,000	0.45	4.6
1,925,000	0.94	2.3	1,925,000	0.94	2.6

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

All of the Company's outstanding options were exercisable as at October 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.

### Warrants

The following table summarizes activity related to warrants:

	Period ended October 31, 2009		Year ended July 31, 2009	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – beginning of period	3,908,991	1.10	2,048,827	1.38
Issued	-	-	1,860,164	0.79
Balance – end of period	3,908,991	1.10	3,908,991	1.10

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

	October 31, 2009			July 31, 2009		
	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	0.1	1,259,180	1.50	0.4
	237,927	1.10	0.1	237,927	1.10	0.4
	485,500	1.25	0.4	485,500	1.25	0.7
	66,220	1.00	0.4	66,220	1.00	0.7
	426,555	0.65	0.5	426,555	0.65	0.7
	565,555	0.65	0.7	565,555	0.65	0.9
	299,778	1.25	0.8	299,778	1.25	1.1
	135,500	1.35	0.8	135,500	1.35	1.1
	100,000	0.75	1.2	100,000	0.75	1.4
	20,000	0.50	1.2	20,000	0.50	1.4
	235,000	0.60	1.5	235,000	0.60	1.7
	77,776	0.45	1.5	77,776	0.45	1.7
	3,908,991	1.10	0.5	3,908,991	1.10	0.8

**9. Contributed surplus**

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

	<b>Period ended October 31, 2009</b>	<b>Year ended July 31, 2009</b>
	\$	\$
Balance – beginning of period	1,377,274	1,318,397
Options granted	-	58,877
Balance – end of period	1,377,274	1,377,274

**10. Related party transactions**

During the period ended October 31, 2009, consulting fees of \$36,000 (2008 – \$31,000) were paid to companies controlled by current officers of the Company; consulting fees of nil (2008 – \$1,000) were paid to a company controlled by a former director. All amounts were fully paid as at October 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 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 are 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.

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

### 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.

### 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 \$551,956 in non-restricted cash at October 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.

# Grizzly Diamonds Ltd.

## Notes to the Consolidated Financial Statements

For the three months ended October 31, 2009 and 2008

(unaudited)

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### *Liquidity risk*

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

As at October 31, 2009, Grizzly's consolidated working capital is \$609,501, 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 the period, Grizzly closed an Offering of an aggregate of 837,500 Units at a price of \$0.40 per Unit for gross proceeds of \$335,000. Each Unit consisted of share and one warrant entitling the holder to acquire one additional share at a price of \$0.50 until December 15, 2010 and \$0.60 thereafter until the earlier of: (a) 30 days following the issuance of a press release by Grizzly that the trading price of its shares on the TSX Venture Exchange is at or greater than \$0.80 per share for 10 consecutive trading days; and (b) 24 months from the date of issuance.

In connection with the Offering, Grizzly paid to the agents a cash fee of \$2,800 and issued warrants to acquire 6,250 shares on the same terms as the above warrants.

As at October 31, 2009, Grizzly has received \$25,000 in subscriptions relating to the Offering.