

Grizzly Diamonds Ltd.

Financial Statements (Unaudited)
Three Months Ended October 31, 2004

To the Shareholders of Grizzly Diamonds Ltd.:

The interim balance sheet of Grizzly Diamonds Ltd. as at October 31, 2004, and the interim statements of operations and deficit and of 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

	<i>(unaudited)</i> October 31, 2004 \$	<i>(audited)</i> July 31, 2004 \$
Assets		
Current Assets		
Cash and cash equivalents	67,394	82,038
Goods and services tax receivable	4,163	9,619
	<u>71,557</u>	<u>91,657</u>
Deferred Share Issuance Costs	94,244	40,500
Mineral Properties (Note 4)	132,141	126,141
	<u>297,942</u>	<u>258,298</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	52,212	-
Shareholders' Equity		
Share capital (Note 5)	268,500	268,500
Deficit	<u>(22,770)</u>	<u>(10,202)</u>
	<u>245,730</u>	<u>258,298</u>
	<u>297,942</u>	<u>258,298</u>

Approved by the Board of Directors

"Brian Testo"

"Pamela Strand"

Director

Director

Grizzly Diamonds Ltd.

Statements of Operations and Deficit

	<i>(unaudited)</i> Three months ended October 31, 2004 \$	<i>(audited)</i> Seven months ended July 31, 2004 \$
Expenses		
Consulting fees	6,000	10,000
General and administrative	6,568	202
	<hr/> 12,568	<hr/> 10,202
Net loss for the period	(12,568)	(10,202)
Deficit – Beginning of period	<hr/> (10,202)	<hr/> -
Deficit – End of period	<hr/> (22,770)	<hr/> (10,202)
Basic and diluted net loss per share	<hr/> (0.002)	<hr/> (0.003)
Weighted average number of shares outstanding	<hr/> 5,710,001	<hr/> 3,562,442

Grizzly Diamonds Ltd.

Statements of Cash Flows

	<i>(unaudited)</i> Three months ended October 31, 2004 \$	<i>(audited)</i> Seven months ended July 31, 2004 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(12,568)	(10,202)
Changes in non-cash working capital items		
Accounts payable	52,213	-
Goods and services tax receivable	5,455	(9,619)
	<hr/> 45,100	<hr/> (19,821)
Investing activities		
Mineral properties		
Acquisition costs	(6,000)	(20,000)
Exploration costs	-	(106,141)
	<hr/> (6,000)	<hr/> (126,141)
Financing activities		
Issuance of shares	-	268,500
Deferred share issuance costs	(53,744)	(40,500)
	<hr/> (53,744)	<hr/> (228,000)
Increase (decrease) in cash and cash equivalents	(14,644)	82,038
Cash and cash equivalents – Beginning of period	82,038	-
Cash and cash equivalents – End of period	<hr/> 67,394	<hr/> 82,038

Grizzly Diamonds Ltd.

Notes to the Financial Statements

(Unaudited)

Three Months Ended October 31, 2004

1 Nature of Operations

Grizzly Diamonds Ltd. (the “Company” or “Grizzly”) was incorporated in Alberta on May 31, 2002 and commenced operations on January 1, 2004.

Grizzly is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets should the company be unable to continue as a going concern.

2 Basis of presentation

These interim financial statements should be read in conjunction with the Company’s July 31, 2004 audited financial statements and the notes thereto. These 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, 2004.

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 periods have been included.

3 Change in Accounting Policy

Effective August 1, 2004, the Company retroactively adopted the new Canadian Institute of Chartered Accounts’ Handbook Section 3110 “Asset Retirement Obligations.” This standard requires liability recognition for retirement obligations associated with long-lived assets, which includes abandonment of mineral properties and returning property to its original condition.

The standard requires the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the company’s credit adjusted risk free rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss. 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. This change in accounting policy has no effect on the company’s prior or current financial statements.

Grizzly Diamonds Ltd.

Notes to the Financial Statements

(Unaudited)

Three Months Ended October 31, 2004

4 Mineral Properties

			<i>(unaudited)</i>	<i>(audited)</i>
			October 31, 2004	July 31, 2004
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$
Alberta				
White Bear	90.0	7,000	106,141	113,141
Smoky the Bear	90.0	5,500	-	5,500
Grand Cub Aidan	90.0	13,500	-	7,500
		<u>26,000</u>	<u>106,641</u>	<u>126,141</u>

5 Share Capital

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

b) Common shares issued:

	For the period ended October 31, 2004	
	Number outstanding #	Amount \$
Balance – Beginning of period	5,710,001	268,500
1st quarter activity	<u>-</u>	<u>-</u>
Balance – October 31, 2004	<u>5,710,001</u>	<u>268,500</u>

Grizzly Diamonds Ltd.

Notes to the Financial Statements

(Unaudited)

Three Months Ended October 31, 2004

6 Subsequent Events

Pursuant to an Agency Agreement dated November 30, 2004, between the Company and First Associates Investments Inc. (the "Agent"), the Company agreed to offer for sale up to 4,000,000 Units and up to 1,350,000 flow-through common shares ("FT shares"), at a price of \$0.30 per Unit or FT share, for minimum gross proceeds of \$900,000 and maximum gross proceeds of \$1,200,000. Each Unit is comprised of one common share and one half common share purchase warrant. One whole warrant entitles the holder to purchase one common share at \$0.50 per share, exercisable for a two year period following the closing of the offering.

The Company has agreed to pay the Agent a cash commission of 8% of the aggregate proceeds of the offering to a maximum of \$96,000, a corporate finance fee in the amount of \$20,000, and pay all reasonable expenses of the Agent. The Agent will also receive a non-transferable option to acquire up to a maximum of 360,000 common shares representing 9% of the aggregate number of FT shares and/or Units sold under the offering. The Agent's options are exercisable at \$0.30 per share within a period of two years following the closing of the offering.

Total estimated costs of the offering, assuming maximum proceeds, including the agent's commission, corporate finance fee, and expenses of \$131,000, are approximately \$258,500 of which \$94,244 was paid or payable as at October 31, 2004. The offering is expected to close before December 31, 2004.

GRIZZLY DIAMONDS LTD. (“Grizzly” or the “Company”)

MANAGEMENT DISCUSSION AND ANALYSIS

Three Months Ended October 31, 2004

Note to Reader

This management discussion and analysis (“MD&A”) supplements, but does not form part of, the unaudited interim financial statements and notes for the three months ended October 31, 2004. The following information, prepared as of December 14, 2004, should be read in conjunction with those statements, which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements, and with the audited financial statements for the seven months ended July 31, 2004, also prepared in accordance with Canadian GAAP. All amounts have been expressed in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at www.sedar.com.

Forward-Looking Information

The following MD&A is management’s assessment of the Company’s operations and financial results, together with future prospects. Certain statements contained in the following MD&A are considered forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the performance and actual results of the Company to be materially different from any future results expressed or implied.

Description of Business

Grizzly Diamonds Ltd. is a junior mineral resource exploration company that has property interests in North America with diamond potential. The Company is concentrating on exploration projects for its diamond properties which are located in Alberta, and is planning on acquiring precious metals properties in British Columbia and other parts of North America. The Company is in the process of completing an initial public offering (“IPO”) to raise gross proceeds of between \$900,000 and \$1,200,000. The terms of the financing are described in the Capital Resources section of this MD&A.

Overall Performance

In the three months ended October 31, 2004, the Company conducted no exploration activities. Management efforts were focussed on advancing the initial public offering. The final Long Form Prospectus dated November 30, 2004 was submitted to the Alberta Securities Commission and the company received official receipt from the regulators in each of Alberta, British Columbia, and Saskatchewan on December 2, 2004. The Long Form Prospectus and Decision Document can be viewed on SEDAR at www.sedar.com.

The Company incurred a net loss of \$12,658 in the three months ended October 31, 2004, as compared to a net loss of \$10,202 in the seven months ended July 31, 2004. The net loss is comprised of consulting fees of \$6,000 paid to an officer of the company for administrative services relating to the IPO. General and administrative expenses of \$6,568 were incurred, \$3,565 of which were fees associated with disclosure on SEDAR and listing on the Toronto Venture Exchange.

Twelve townships that make up part of the Grand Cub Aidan Property were re-acquired for a total cost of \$6,000.

Risks and Uncertainties

The success of Grizzly's business is subject to a number of factors, including but not limited to those risks normally encountered by junior resource exploration companies, such as exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. In addition, there is no quoted market price for diamonds and the market price for rough diamonds is dependent on an efficient market management system. Grizzly's on-going ability to finance exploration beyond those programs budgeted to date will depend on, amongst other things, the viability of equity markets.

Liquidity

The Company has no operating revenues and relies on the issuance of common shares to finance exploration and to provide working capital. The Company's cash balance declined from \$82,038 as of July 31, 2004 to \$67,394 as of October 31, 2004. Working capital as of October 31, 2004 was \$19,345 as compared to \$91,657 as of July 31, 2004. The decrease in working capital is largely due to an increase in deferred share issuance costs of \$52,212 for costs associated with the drafting the Long Form Prospectus and listing on the Toronto Venture Exchange that will be paid from the proceeds of the IPO.

Capital Resources

The Company currently has 5,710,001 common shares issued and outstanding.

The Company is in the process of completing an initial public offering, the terms of which are described below:

Pursuant to an Agency Agreement dated November 30, 2004, between the Company and First Associates Investments Inc. (the "Agent"), the Company agreed to offer for sale up to 4,000,000 Units and up to 1,350,000 flow-through common shares ("FT shares"), at a price of \$0.30 per Unit or FT share, for minimum gross proceeds of \$900,000 and maximum gross proceeds of \$1,200,000. Each Unit is comprised of one common share and one half common share purchase warrant. One whole warrant entitles the holder to purchase one common share at \$0.50 per share, exercisable for a two year period following the closing of the offering.

The Company has agreed to pay the Agent a cash commission of 8% of the aggregate proceeds of the offering to a maximum of \$96,000, a corporate finance fee in the amount of \$20,000, and pay all reasonable expenses of the Agent. The Agent will also receive a non-transferable option to acquire up to a maximum of 360,000 common shares representing 9% of the aggregate number of FT shares and/or Units sold under the offering. The Agent's options are exercisable at \$0.30 per share within a period of two years following the closing of the offering.

Total estimated costs of the offering, assuming maximum proceeds, including the agent's commission, corporate finance fee, and expenses of \$131,000, are approximately \$258,500 of which \$94,244 was paid or payable as at October 31, 2004. The offering is expected to close before December 31, 2004.

The proceeds of this financing will be used for working capital requirements, exploration of mineral properties in Alberta, and the acquisition and exploration of mineral properties in North America.

Transactions with Related Parties

Consulting fees of \$6,000 (\$2,000 per month) were paid to Norman Eaton, an officer of the company, for administrative services relating to the IPO.

Fees of \$854 were paid to Lakehead Geological Services, a company which is controlled by a Director of the Company, for reconnaissance work on a prospective metals property.