

Grizzly Discoveries Inc. *(formerly Grizzly Diamonds Ltd.)*

Consolidated Financial Statements

Three and six months ended January 31, 2010 and 2009

To the shareholders of Grizzly Discoveries Inc:

The interim consolidated balance sheet of Grizzly Discoveries Inc. as at January 31, 2010, and the interim consolidated 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 Discoveries Inc. (formerly Grizzly Diamonds Ltd.)
Consolidated Balance Sheets

	(unaudited) January 31, 2010	(audited) July 31, 2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 4)	1,035,550	1,245,382
Restricted cash (note 5)	25,000	25,000
Accounts receivable	92,863	53,795
Marketable securities	47,516	23,175
Prepaid expenses	12,469	6,718
	<u>1,213,398</u>	1,354,070
Restricted cash (note 5)	35,200	28,200
Investment in 072261 BC Ltd.	62,839	62,839
Mineral properties (note 6)	9,341,106	8,399,013
	<u>10,652,543</u>	9,844,122
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	55,667	178,379
Future income taxes	816,524	814,727
	<u>872,191</u>	993,106
Shareholders' equity		
Deficit	(2,728,614)	(2,239,185)
Accumulated other comprehensive loss	(51,195)	(68,865)
	<u>(2,779,809)</u>	(2,308,050)
Share capital (note 7)	10,976,461	9,781,792
Contributed surplus (note 8)	1,583,700	1,377,274
	<u>9,780,352</u>	8,851,016
	<u>10,652,543</u>	9,844,122

Approved by the Board of Directors

Signed "Brian Testo" Director

Signed "Douglas Turnbull" Director

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Consolidated Statements of Net Loss and Deficit

(unaudited)

	Three months ended January 31 2010 \$	Three months ended January 31 2009 \$	Six months ended January 31 2010 \$	Six months ended January 31 2009 \$
Revenue				
Interest	1,861	8,702	2,840	15,379
Expenses				
Advertising and promotion	26,382	3,331	34,257	8,974
Office	19,135	37,164	35,008	52,627
Conferences and corporate travel	9,866	21,022	31,113	21,600
Corporate filing and transfer fees	9,500	4,281	12,030	8,207
Professional fees	29,392	16,191	34,234	24,210
Consulting fees	82,707	79,016	136,027	130,090
	176,982	161,005	282,669	245,708
	(175,121)	(152,303)	(279,829)	(230,329)
Other expenses				
Stock-based compensation (note 7)	(209,600)	-	(209,600)	-
Write down of mineral properties	-	-	-	(61,463)
Net loss for the period	(384,721)	(152,303)	(489,429)	(291,792)
Deficit - beginning of period	(2,343,893)	(1,924,263)	(2,239,185)	(1,784,774)
Deficit - end of period	(2,728,614)	(2,076,566)	(2,728,614)	(2,076,566)
Basic and diluted net loss per common share	(0.02)	(0.01)	(0.02)	(0.01)
Weighted average number of common shares outstanding	24,173,899	20,441,190	23,579,397	20,278,663

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three months ended January 31 2010 \$	Three months ended January 31 2009 \$	Six months ended January 31 2010 \$	Six months ended January 31 2009 \$
Net loss for the period	(384,721)	(152,303)	(489,429)	(291,792)
Other comprehensive loss:				
Unrealized gain (loss) on available for sale investments, net of future income taxes	619	1,740	17,670	(46,980)
Comprehensive loss for the period	(384,102)	(150,563)	(471,759)	(338,772)

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Consolidated Statements of Cash Flows

(unaudited)

	Three months ended January 31 2010 \$	Three months ended January 31 2009 \$	Six months ended January 31 2010 \$	Six months ended January 31 2009 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(384,721)	(152,303)	(489,429)	(291,792)
Items not affecting cash and cash equivalents				
Stock-based compensation	209,600	-	209,600	-
Write down of mineral properties	-	-	-	61,463
	(175,121)	(152,303)	(279,829)	(230,329)
Restricted cash	(7,000)	-	(7,000)	-
Net change in non-cash working capital items	(59,046)	(383,855)	(167,531)	(303,160)
	(241,167)	(536,158)	(454,360)	(533,489)
Investing activities				
Mineral properties	(432,206)	(201,750)	(909,467)	(909,254)
Financing activities				
Issuance of shares	1,185,075	100,000	1,185,075	910,600
Share issuance costs	(28,108)	(9,500)	(31,080)	(17,806)
	1,156,967	90,500	1,153,995	892,794
Increase (decrease) in cash and cash equivalents	483,594	(647,408)	(209,832)	(549,949)
Cash and cash equivalents - beginning of period	551,956	1,324,609	1,245,382	1,227,150
Cash and cash equivalents - end of period	1,035,550	677,201	1,035,550	677,201
Cash and cash equivalents consist of:				
Cash on deposit with financial institutions	1,035,550	677,201	1,035,550	677,201

The non-cash transactions described in notes 6 and 7 have been excluded from the statement of cash flows.

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

For the three and six months ended January 31, 2010 and 2009

(unaudited)

1. Nature of operations and going concern

Grizzly Discoveries Inc. (“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.

On January 8, 2010, the Company received shareholder approval to change the name of the Company to Grizzly Discoveries Inc.

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 \$2,728,614 at January 31, 2010. Working capital is \$1,157,731 at January 31, 2010. 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.

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

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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.

5. Restricted cash

The Company has restricted cash in the amount of \$25,000 (2009 – \$25,000) as security for corporate credit card liabilities. The Company also has restricted cash in the amount of \$35,200 (2009 – \$28,200) relating to two letters of guarantee for reclamation work in order to facilitate exploration in certain mineral property areas.

6. Mineral properties

	Alberta Diamond Properties	BC Precious Mineral Properties	Alberta Industrial Mineral Properties	Total
Ownership interest (%)	49-100	72-100	100	49-100
	\$	\$	\$	\$
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, Jan 31, 2009	5,394,770	2,516,466	195,049	8,106,285
Acquisition costs	8,133	127,130	9,194	144,457
Fieldwork	12,667	112,735	18,671	144,073
Geophysics	-	1	-	1
Drilling	-	-	-	-
Analysis	4,049	148	-	4,197
Mineral tax credits	-	-	-	-
Balance, July 31, 2009	5,419,619	2,756,480	222,914	8,399,013
Acquisition costs	-	75,312	-	75,312
Fieldwork	8,483	257,820	2,941	269,244
Geophysics	-	211,763	-	211,763
Drilling	-	315,846	-	315,846
Analysis	5,970	63,958	-	69,928
Balance, Jan 31, 2010	5,434,072	3,681,179	225,855	9,341,106

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

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Balances				
Acquisition	301,209	580,589	172,322	1,054,120
Exploration	5,132,863	3,100,590	53,533	8,286,986
Balance, Jan 31, 2010	5,434,072	3,681,179	225,855	9,341,106

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.

On September 28, 2009, Grizzly signed an asset purchase agreement with three arm's length individuals to acquire a 100% interest in the Prince of Wales mineral claim in the Copper Mountain area, contiguous with Grizzly's other Greenwood claims. To acquire the interest, Grizzly issued 30,000 common shares of Grizzly.

7. Share capital

Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Period ended		Year ended	
	January 31, 2010		July 31, 2009	
	Common		Common	
	Shares	Amount	Shares	Amount
	#	\$	#	\$
Balance – beginning of period	22,943,970	9,781,792	19,501,069	7,987,153
Shares issued for cash	2,857,999	1,191,075	3,289,776	1,897,499
Shares issued for mineral properties (note 6)	105,000	37,500	75,000	32,500
Shares issued for investment (note 7)	-	-	78,125	25,000
Share issuance costs	-	(33,906)	-	(90,147)
Future income taxes	-	-	-	(70,213)
Balance – end of period	25,906,969	10,976,461	22,943,970	9,781,792

On December 15, 2009, 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.

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On December 30, 2009, Grizzly closed an Offering of an aggregate of 1,033,000 units ("Units") at a price of \$0.40 per Unit and an aggregate of 912,499 flow-through units ("FT Units") at a price of \$0.45 per FT Unit for gross proceeds of \$823,825.

Each Unit consisted of share and one warrant entitling the holder to acquire one additional share at a price of \$0.50 until December 30, 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.

Each FT Unit consisted of share and one warrant entitling the holder to acquire one additional share at a price of \$0.55 until December 30, 2010 and \$0.65 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 \$4,390 and issued warrants to acquire 12,194 shares on the same terms as the above Unit warrants.

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, 2010		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	865,000	0.40	150,000	0.45
Exercised	(75,000)	0.35	-	-
Expired	(350,000)	0.35	(200,000)	0.57
Balance – end of period	2,365,000	0.85	1,925,000	0.94

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

January 31, 2010			July 31, 2009		
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
275,000	1.22	1.0	425,000	0.35	0.4
25,000	0.89	1.7	275,000	1.22	1.5
100,000	1.15	2.3	25,000	0.89	2.2
100,000	1.20	2.6	100,000	1.15	2.8
50,000	1.50	2.6	100,000	1.20	3.1
100,000	1.05	2.9	50,000	1.50	3.1
600,000	1.20	3.1	100,000	1.05	3.4
100,000	1.00	3.4	600,000	1.20	3.6
150,000	0.45	4.1	100,000	1.00	3.9
200,000	0.42	4.9	150,000	0.45	4.6
665,000	0.40	5.0	-	-	-
2,365,000	0.85	3.5	1,925,000	0.94	2.6

All of the Company's outstanding options were exercisable as at January 31, 2010 and 2009. 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.

The Company recorded stock-based compensation expense in the amount of \$209,600 (2009 – nil) in the consolidated statement of net loss and deficit for options granted in the year. The stock-based compensation expense has been determined based on the fair value of an aggregate 865,000 (2009 – nil) options at the grant date, with a weighted average fair value of \$0.24 per option (2009 – nil).

The Company has recorded share issuance costs in the amount of \$2,826 (2009 – nil) 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 18,444 (2009 – nil) Agent's Units and Agent's warrants at the grant date, with a weighted average fair value of \$0.15 per Agent's Unit and Agent's warrant (2009 – nil).

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:

	Six months ended January 31, 2010
Risk-free interest rate	2.27%
Expected volatility	80.0%
Annual dividend yield	0.0%
Expected life of options	5 years

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

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(unaudited)

Warrants

The following table summarizes activity related to warrants:

	Period ended January 31, 2010		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	2,801,443	0.52	1,860,164	0.79
Expired	(1,497,107)	1.44	-	-
Balance – end of period	5,213,327	0.69	3,908,991	1.10

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

	January 31, 2010			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
	485,500	1.25	0.2	1,259,180	1.50	0.4
	66,220	1.00	0.2	237,927	1.10	0.4
	426,555	0.65	0.2	485,500	1.25	0.7
	565,555	0.65	0.4	66,220	1.00	0.7
	299,778	1.25	0.6	426,555	0.65	0.7
	135,500	1.35	0.6	565,555	0.65	0.9
	100,000	0.75	0.9	299,778	1.25	1.1
	20,000	0.50	0.9	135,500	1.35	1.1
	235,000	0.60	1.2	100,000	0.75	1.4
	77,776	0.45	1.2	20,000	0.50	1.4
	837,500	0.50	1.9	235,000	0.60	1.7
	6,250	0.50	1.9	77,776	0.45	1.7
	1,033,000	0.50	1.9	-	-	-
	12,194	0.50	1.9	-	-	-
	912,499	0.55	1.9	-	-	-
	5,213,327	0.69	1.2	3,908,991	1.10	0.8

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

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(unaudited)

8. Contributed surplus

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

	Period ended January 31, 2010	Year ended July 31, 2009
	\$	\$
Balance – beginning of period	1,377,274	1,318,397
Options exercised	(6,000)	-
Options granted	212,426	58,877
	<hr/>	<hr/>
Balance – end of period	1,583,700	1,377,274

9. Related party transactions

During the period ended January 31, 2010, consulting fees of \$72,000 (2009 – \$67,000) were paid to companies controlled by current officers of the Company; consulting fees of nil (2009 – \$1,000) were paid to a company controlled by a former director. All amounts were fully paid as at January 31, 2010 and 2009.

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.

10. 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.

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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 \$1,035,550 in non-restricted cash at January 31, 2010, 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.

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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 January 31, 2010, Grizzly's consolidated working capital is \$1,157,731, 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.

11. Comparative amounts

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