

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

Consolidated Financial Statements

Three months ended October 31, 2010 and 2009

To the shareholders of Grizzly Discoveries Inc:

The interim consolidated balance sheet of Grizzly Discoveries Inc. as at October 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) October 31, 2010	(audited) July 31, 2010
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 4)	1,213,332	2,013,963
Restricted cash (note 5)	25,000	25,000
Goods and services tax receivable	59,459	31,479
Mineral exploration tax credit receivable	-	33,888
Marketable securities (note 10)	52,028	37,342
Prepaid expenses	46,144	16,145
	1,395,963	2,157,817
Restricted cash (note 5)	28,200	28,200
Investment in 072261 BC Ltd.	62,839	62,839
Mineral properties (note 6)	10,334,343	9,937,770
	11,821,345	12,186,626
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	95,082	315,383
Future income taxes	926,041	960,396
	1,021,123	1,275,779
Shareholders' equity		
Deficit	(3,090,095)	(2,966,764)
Accumulated other comprehensive loss	(47,290)	(59,996)
	(3,137,385)	(3,026,760)
Share capital (note 7)	12,353,907	12,353,907
Contributed surplus (note 8)	1,583,700	1,583,700
	10,800,222	10,910,847
Approved by the Board of Directors	11,821,345	12,186,626
Signed "Brian Testo" Director	11,821,345	12,186,626
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 October 31 2010 \$	Three months ended October 31 2009 \$
Revenue		
Interest	4,572	979
Expenses		
Advertising and promotion	39,483	7,875
Conferences and corporate travel	24,903	21,247
Consulting fees	77,903	53,320
Corporate filing and transfer fees	1,567	2,530
Office	18,187	15,873
Professional fees	2,195	4,842
	<u>(164,238)</u>	<u>(105,687)</u>
Loss before income taxes	(159,666)	(104,708)
Future income tax benefit	36,335	-
Net loss for the period	(123,331)	(104,708)
Deficit - beginning of period	(2,966,764)	(2,239,185)
Deficit - end of period	(3,090,095)	(2,343,893)
Basic and diluted net loss per common share	(0.00)	(0.00)
Weighted average number of common shares outstanding	31,410,302	22,943,970

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. *(formerly Grizzly Diamonds Ltd.)*
Consolidated Statements of Comprehensive Loss
(unaudited)

	Three months ended October 31 2010 \$	Three months ended October 31 2009 \$
Net loss for the period	(123,331)	(104,708)
Other comprehensive income:		
Unrealized gain on available for sale investments, net of future income taxes	<u>12,706</u>	<u>17,051</u>
Comprehensive loss for the period	<u>(110,625)</u>	<u>(87,657)</u>

See accompanying notes to consolidated financial statements

Grizzly Discoveries Inc. (formerly *Grizzly Diamonds Ltd.*)
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended October 31 2010 \$	Three months ended October 31 2009 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(123,331)	(104,708)
Items not affecting cash and cash equivalents		
Future income tax benefit	(36,335)	-
	(159,666)	(104,708)
Net change in non-cash working capital items	(244,392)	(108,485)
	(404,058)	(213,193)
Investing activities		
Mineral properties	(396,573)	(477,261)
	(396,573)	(477,261)
Financing activities		
Share issuance costs	-	(2,972)
	-	(2,972)
Decrease in cash and cash equivalents	(800,631)	(693,426)
Cash and cash equivalents - beginning of period	2,013,963	1,245,382
Cash and cash equivalents - end of period	1,213,332	551,956
Cash and cash equivalents consist of:		
Cash on deposit with financial institutions	1,213,332	551,956

See accompanying notes to consolidated financial statements

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

Notes to the Consolidated Financial Statements

For the three months ended October 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. 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.

On January 9, 2010, the Company changed its name from Grizzly Diamonds Ltd. to Grizzly Discoveries Inc.

These financial statements have been prepared using Canadian generally accepted accounting principles (“GAAP”) on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business over the next fiscal year. The Company has an accumulated deficit of \$3,090,095 and working capital of \$1,300,881 at October 31, 2010, and expects to incur further losses in the development of its business and its mineral properties. These considerations raise substantial doubt about the Company’s ability to continue as a going concern. 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 consolidated 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 audited consolidated financial statements for the year ended July 31, 2010 and 2009 and the notes thereto. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) by the Company and follow the same accounting policies and method of application as the Company’s consolidated financial statements for the years ended July 31, 2010 and 2009.

Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP 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.

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

Notes to the Consolidated Financial Statements

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(unaudited)

3. Future accounting changes

International Financial Reporting Standards

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.

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 \$28,200 (2009 – \$28,200) relating to two letters of guarantee for reclamation work in order to facilitate exploration in certain mineral property areas.

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

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(unaudited)

6. Mineral properties

	Alberta Diamond Properties	BC Precious Mineral Properties	Alberta Industrial Mineral Properties	Total 72-100
Ownership interest (%)	90-100	72-100	100	72-100
	\$	\$	\$	\$
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
Write-downs	-	-	-	-
Balance, October 31, 2009	5,423,529	3,253,890	225,855	8,903,274
Acquisition costs	-	90,978	3,281	94,259
Fieldwork	14,390	510,899	3,730	529,019
Geophysics	-	26,347	-	26,347
Drilling	-	373,703	-	373,703
Analysis	5,970	63,889	-	69,859
Mineral tax credits	(58,691)	-	-	(58,691)
Balance, July 31, 2010	5,385,198	4,319,706	232,866	9,937,770
Acquisition costs	-	3,019	8,125	11,144
Fieldwork	2,319	259,169	3,573	265,061
Geophysics	-	-	-	-
Drilling	-	9,554	-	9,554
Analysis	-	110,814	-	110,814
Balance, October 31, 2010	5,387,517	4,702,262	244,564	10,334,343
Balances	\$	\$	\$	\$
Acquisition	259,866	635,074	183,728	1,078,668
Exploration	5,127,651	4,067,188	60,836	9,255,675
Balance, October 31, 2010	5,387,517	4,702,262	244,564	10,334,343

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

For the three months ended October 31, 2010 and 2009

(unaudited)

7. Share capital

Shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	Period ended October 31, 2010		Year ended July 31, 2010	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Balance – beginning of period	31,410,302	12,353,907	22,943,970	9,781,792
Shares issued for cash	-	-	8,221,332	2,864,074
Shares issued for mineral properties	-	-	245,000	79,250
Reclassified from contributed surplus	-	-	-	6,000
Share issuance costs	-	-	-	(62,054)
Future income taxes	-	-	-	(315,155)
Balance – end of period	31,410,302	12,353,907	31,410,302	12,353,907

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.

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

For the three months ended October 31, 2010 and 2009

(unaudited)

The following table summarizes activity related to stock options:

	Period ended October 31, 2010		Year ended July 31, 2010	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Balance – beginning of period	2,365,000	0.85	1,925,000	0.94
Granted	-	-	865,000	0.40
Exercised	-	-	(350,000)	0.35
Expired	-	-	(75,000)	0.35
Balance – end of period	2,365,000	0.85	2,365,000	0.85

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

October 31, 2010			July 31, 2010		
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	0.2	275,000	1.22	0.5
25,000	0.89	1.0	25,000	0.89	1.2
100,000	1.15	1.5	100,000	1.15	1.8
100,000	1.20	1.8	100,000	1.20	2.1
50,000	1.50	1.8	50,000	1.50	2.1
100,000	1.05	2.1	100,000	1.05	2.4
600,000	1.20	2.4	600,000	1.20	2.6
100,000	1.00	2.6	100,000	1.00	2.9
150,000	0.45	3.4	150,000	0.45	3.6
200,000	0.42	4.1	200,000	0.42	4.4
665,000	0.40	4.2	665,000	0.40	4.5
2,365,000	0.85	2.8	2,365,000	0.85	3.0

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

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)**Notes to the Consolidated Financial Statements****For the three months ended October 31, 2010 and 2009****(unaudited)****Warrants**

The following table summarizes activity related to warrants:

	Period ended October 31, 2010		Year ended July 31, 2010	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Balance – beginning of period	9,598,385	0.57	3,908,991	1.10
Issued	-	-	8,164,776	0.52
Expired	(435,278)	1.28	(2,475,382)	1.25
Balance – end of period	9,163,107	0.53	9,598,385	0.57

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

	October 31, 2010			July 31, 2010		
	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life
	#	\$	Years	#	\$	Years
	-	-	-	299,778	1.25	0.1
	-	-	-	135,500	1.35	0.1
	100,000	0.75	0.2	100,000	0.75	0.4
	20,000	0.50	0.2	20,000	0.50	0.4
	235,000	0.60	0.5	235,000	0.60	0.7
	77,776	0.45	0.5	77,776	0.45	0.7
	3,963,333	0.50	0.7	3,963,333	0.50	0.9
	1,400,000	0.60	1.1	1,400,000	0.60	0.9
	565,555	0.65	1.1	565,555	0.65	0.9
	837,500	0.50	1.2	837,500	0.50	1.4
	6,250	0.50	1.2	6,250	0.50	1.4
	1,033,000	0.50	1.2	1,033,000	0.50	1.4
	12,194	0.50	0.7	12,194	0.50	1.4
	912,499	0.55	0.7	912,499	0.55	1.4
	9,163,107	0.53	0.8	9,598,385	0.57	1.0

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

Notes to the Consolidated Financial Statements

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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 October 31, 2010	Year ended July 31, 2010
	\$	\$
Balance – beginning of period	1,583,700	1,377,274
Options exercised	-	212,426
Options granted	-	(6,000)
Balance – end of period	1,583,700	1,583,700

9. Related party transactions

During the period ended October 31, 2010, consulting fees of \$36,000 (2009 – \$36,000) were paid to companies controlled by current officers of the Company. All amounts were fully paid as at October 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 sheets consist of cash and cash equivalents, restricted cash, mineral exploration tax credits receivable, marketable securities, deposits, 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.

Mineral exploration tax credits receivable and deposits 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. The fair value is determined based on unadjusted quoted prices on the primary exchange on which the securities are traded (Level 1).

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.

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

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(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 \$1,213,332 in non-restricted cash at October 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.

Grizzly Discoveries Inc. (formerly Grizzly Diamonds Ltd.)

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(unaudited)

Liquidity risk

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

As at October 31, 2010, Grizzly's consolidated working capital is \$1,300,881, 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.

12. Subsequent events

Subsequent to the period, Grizzly granted 815,000 stock options of which 640,000 were granted to insiders of Grizzly. 775,000 options vest upon issuance and the remaining 40,000 options will vest in equal tranches of 10,000 every three months within the first year from issuance. The stock options are exercisable at a price of \$0.30.

Subsequent to the period, Grizzly announced a private placement agreement of flow through units ("FT Units") at a price of \$0.35 per FT Unit and non-flow through units ("Units") at a price of \$0.30 per Unit for aggregate gross proceeds of up to \$1,000,000 (the "Offering").

Each FT Unit will consist of one common share of Grizzly to be issued as a "flow-through share" pursuant to the *Income Tax Act* (Canada) and one common share purchase warrant ("FT Unit Warrant") entitling the holder to acquire one additional non-flow through common share at a price of \$0.60. Each Non-FT Unit will consist of one common share and one common share purchase warrant ("Non-FT Unit Warrant") entitling the holder to acquire one additional common share at a price of \$0.50. All warrants will expire on the earlier of: (a) 30 days following the issuance of a news release by Grizzly that its trading price on the TSX Venture Exchange is at or greater than \$0.80 for 10 consecutive trading days; and (b) 24 months from the date of issuance.