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**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2010**  
*(Unaudited - Prepared by Management)*

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**BITTERROOT RESOURCES LTD.**  
**(UNAUDITED - PREPARED BY MANAGEMENT)**

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**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-109 Part 4 Subsection 4.3(3) (a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The unaudited interim financial statements of the Company as at January 31, 2010, and for three months ended January 31, 2010 and 2009, were prepared by, and are the responsibility of the Company's management.

The Company's independent auditor did not perform a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(UNAUDITED - PREPARED BY MANAGEMENT)  
(Expressed in Canadian Dollars)

|   | January 31<br>2010 | October 31<br>2009     |
|---|--------------------|------------------------|
|   | \$                 | \$<br><i>(audited)</i> |
| <b>ASSETS</b>                               |                    |                        |
| <b>Current Assets</b>                       |                    |                        |
| Cash and cash equivalents                   | 1,065,829          | 758,215                |
| Accounts receivable - other                 | 457,546            | 525,772                |
| Prepaid expenses                            | 20,125             | 23,688                 |
|   | <u>1,543,500</u>   | <u>1,307,675</u>       |
| <b>Reclamation Deposit</b>                  | 15,800             | 15,800                 |
| <b>Resource Properties</b> (Note 3)         | 15,398,993         | 15,090,668             |
| <b>Equipment</b> (Note 4)                   | 8,857              | 9,446                  |
|   | <u>16,967,150</u>  | <u>16,423,589</u>      |
| <b>LIABILITIES</b>                          |                    |                        |
| <b>Current Liabilities</b>                  |                    |                        |
| Accounts payable and accrued liabilities    | 84,210             | 182,435                |
| <b>Asset Retirement Obligation</b> (Note 5) | 23,176             | 22,611                 |
| <b>Future Income Taxes</b> (Note 11)        | 1,145,579          | 1,145,579              |
|   | <u>1,252,965</u>   | <u>1,350,625</u>       |
| <b>SHAREHOLDERS' EQUITY</b>                 |                    |                        |
| <b>Share Capital</b> (Note 6)               | 19,482,486         | 19,049,894             |
| <b>Contributed Surplus</b> (Note 7)         | 2,955,182          | 2,891,573              |
| <b>Deficit</b>                              | (6,723,483)        | (6,868,503)            |
|   | <u>15,714,185</u>  | <u>15,072,964</u>      |
|   | <u>16,967,150</u>  | <u>16,423,589</u>      |

**Continuing Operations** (Note 2)  
**Commitments** (Note 15)

Approved by directors:

"Michael S. Carr"  
Michael S. Carr, Director

"George W. Sanders"  
George W. Sanders, Director

The accompanying notes are an integral part of these consolidated financial statements.

**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(UNAUDITED - PREPARED BY MANAGEMENT)  
(Expressed in Canadian Dollars)

| <b>THREE MONTH PERIOD ENDED JANUARY 31</b>           | <b>2010</b>        | <b>2009</b>        |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| <b>Revenues</b>                                      | -                  | -                  |
| <b>Expenses</b>                                      |                    |                    |
| Amortization   | 588                | 901                |
| Accretion  | 565                | -                  |
| Foreign exchange loss (gain)                         | 704                | 9,941              |
| Interest and bank charges                            | 627                | 813                |
| Management fees                                      | 24,000             | 24,000             |
| Office and printing                                  | 27,557             | 27,715             |
| Professional fees                                    | 27,886             | 26,644             |
| Property investigation (recoveries)                  | 4,550              | (19,127)           |
| Regulatory Fees                                      | 2,495              | (525)              |
| Shareholder information                              | 5,814              | 280                |
| Stock-based compensation (Note 8)                    | 38,251             | 4,567              |
| Transfer agent fees                                  | 1,285              | 1,724              |
|  | <u>134,322</u>     | <u>76,933</u>      |
| <b>Loss Before Other Items And Income Taxes</b>      | (134,322)          | (76,933)           |
| <b>Other Items</b>                                   |                    |                    |
| Interest income                                      | 1,245              | 43                 |
| <b>Loss Before Income Taxes</b>                      | (133,077)          | (76,890)           |
| Future income tax recovery                           | 278,097            | 779,951            |
| <b>Net Earnings For The Period</b>                   | 145,020            | 703,061            |
| Deficit, beginning of period                         | <u>(6,868,503)</u> | <u>(6,705,170)</u> |
| <b>Deficit, End Of Period</b>                        | <u>(6,723,483)</u> | <u>(6,002,109)</u> |
| <b>Basic And Diluted Earnings (Loss) Per Share</b>   | 0.00               | 0.01               |
| <b>Weighted Average Number Of Shares Outstanding</b> | 72,788,686         | 62,919,303         |

The accompanying notes are an integral part of these consolidated financial statements.

**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED - PREPARED BY MANAGEMENT)  
(Expressed in Canadian Dollars)

| <b>THREE MONTH PERIOD ENDED JANUARY 31</b>                     | <b>2010</b>      | <b>2009</b>      |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>Operating Activities</b>                                    |                  |                  |
| Net earnings for the period                                    | 145,020          | 703,062          |
| Items not involving cash:                                      |                  |                  |
| Amortization   | 588              | 901              |
| Accretion  | 565              | -                |
| Stock-based compensation                                       | 38,251           | 4,567            |
| Future income tax recovery                                     | (278,097)        | (779,951)        |
|  | <u>(93,673)</u>  | <u>(71,421)</u>  |
| Changes in non-cash working capital:                           |                  |                  |
| Accounts receivable - other                                    | 508,155          | 1,191,502        |
| Prepaid expenses   | 3,563            | 5,714            |
| Accounts payable and accrued liabilities                       | (117,099)        | (320,814)        |
|  | <u>394,619</u>   | <u>876,402</u>   |
|  | <u>300,946</u>   | <u>824,108</u>   |
| <b>Financing Activity</b>                                      |                  |                  |
| Share issuances  | 678,200          | 731,135          |
| <b>Investing Activity</b>                                      |                  |                  |
| Resource property expenditures, net of recoveries              | (671,532)        | (391,804)        |
| <b>Increase in Cash and Cash Equivalents During the Period</b> | <b>307,614</b>   | <b>1,144,312</b> |
| Cash and cash equivalents, beginning of period                 | <u>758,215</u>   | <u>381,957</u>   |
| <b>Cash and Cash Equivalents, End of Period</b>                | <b>1,065,829</b> | <b>1,526,269</b> |
| <b>Cash and Cash Equivalents Consist of:</b>                   |                  |                  |
| Bank deposits  | 1,065,829        | 1,076,957        |
| Guaranteed investment certificates                             | <u>-</u>         | <u>449,312</u>   |
|  | <u>1,065,829</u> | <u>1,526,269</u> |

Supplemental Cash Flow Information (Note 9)

The accompanying notes are an integral part of these consolidated financial statements.

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**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIOD ENDED JANUARY 31, 2010**  
**(Expressed in Canadian Dollars)**

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**1. Basis of Presentation**

These interim financial statements have been prepared using the same accounting policies as used in the financial statements for the year ended October 31, 2009, except where noted below, and should be read in conjunction with the audited annual financial statements.

**2. Continuing Operations**

Bitterroot Resources Ltd. incorporated in British Columbia, is a public company listed on the TSX Venture Exchange.

The Company is in the exploration stage and its principal business activity is the sourcing and exploration of resource properties.

At January 31, 2010, the Company was in the process of exploring its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof.

The Company produced earnings of \$145,020 for the three month period ended January 31, 2010 (2009 - \$703,061) and had a deficit of \$6,723,483 at January 31, 2010 (October 31, 2009 - \$6,868,503) which has been funded primarily by the issuance of equity. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing, and generating revenues sufficient to cover its operating costs.

These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated balance sheets.

**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIOD ENDED JANUARY 31, 2010**  
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**3. Resource Properties**

|                                   | GK<br>Property<br>B.C.,<br>Canada | Mineral<br>Creek<br>Property<br>B.C.,<br>Canada | North<br>Brenda<br>Property<br>B.C.,<br>Canada | SPN<br>Property<br>B.C.,<br>Canada | Big<br>Southeaster<br>Property<br>B.C.,<br>Canada | Michigan<br>Lands<br>Michigan,<br>USA | Total      |
|-----------------------------------|-----------------------------------|---|--|------------------------------------|---|---------------------------------------|------------|
|                                   | \$                                | \$  | \$   | \$                                 | \$  | \$                                    | \$         |
| <b>Balance - October 31, 2009</b> | 2,522,045                         | 5,220,991                                       | 1,653,470                                      | 438,387                            | 1,937,062   | 3,318,713                             | 15,090,668 |
| Deferred Costs During the Period  |                                   |   |  |                                    |   |                                       |            |
| Acquisition costs                 | -                                 | -   | -  | 50,000                             | -   | -                                     | 50,000     |
| Claims, leases and permits        | 100                               | 100   | 100  | 100                                | 100   | 5,054                                 | 5,554      |
| Consulting and professional       | 463                               | 58,074  | 53,411   | 3,925                              | -   | 993                                   | 116,866    |
| Drilling                          | -                                 | 98,122  | -  | -                                  | -   | -                                     | 98,122     |
| Field supplies                    | -                                 | 4,095   | -  | -                                  | -   | 34                                    | 4,129      |
| Fuel                              | -                                 | 9,823   | -  | -                                  | -   | -                                     | 9,823      |
| Geochemistry                      | -                                 | 7,625   | 24,881   | -                                  | -   | -                                     | 32,506     |
| Geophysics                        | -                                 | -   | 5,218  | -                                  | -   | -                                     | 5,218      |
| Ground transportation             | -                                 | 5,059   | -  | -                                  | -   | 101                                   | 5,160      |
| Other                             | -                                 | 4,387   | -  | -                                  | 794   | 668                                   | 5,849      |
| Recovery of costs                 | -                                 | (22,082)  | -  | -                                  | -   | (14,107)                              | (36,189)   |
| Room and board                    | -                                 | 3,121   | -  | -                                  | -   | 170                                   | 3,291      |
| Stock-based compensation          | 686                               | 2,059   | 686  | 686                                | -   | 3,728                                 | 7,845      |
| Travel and freight                | -                                 | 111   | -  | -                                  | -   | 40                                    | 151        |
|                                   | 1,249                             | 170,494   | 84,296   | 54,711                             | 894   | (3,319)                               | 308,325    |
| <b>Balance - January 31, 2010</b> | 2,523,294                         | 5,391,485                                       | 1,737,766                                      | 493,098                            | 1,937,956   | 3,315,394                             | 15,398,993 |

Title to resource properties involves certain inherent risks due to difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to its resource properties and to the best of its knowledge, title to its properties are in good standing.

(a) Michigan Lands, Michigan, U.S.A.

(i) Mineral Rights

The Company owns a 100% interest in mineral rights covering approximately 363 square miles in the Upper Peninsula of Michigan, U.S.A. On approximately 106 square miles, the vendor retains a 2% net smelter return royalty (NSR) and the Company has the option to purchase one half of the total 2% NSR royalty by paying \$1,000,000 U.S. on or before December 31, 2048.

The Company retains a 35% interest in certain State of Michigan mineral leases within a 56 square mile area of interest. Cameco Corporation acquired the remaining 65% interest from the Company having incurred \$1,600,000 of exploration expenditures. Cameco and Bitterroot also jointly retain the right to acquire 50 percent of each other's interest in an adjoining 184 square mile area of interest by refunding 100 percent of any land acquisition cost incurred.

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**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. Resource Properties** *(Cont'd)*

(ii) State Leases

At January 31, 2010, the Company held leases covering approximately 7,389 acres of State of Michigan mineral rights. State leases are subject to a sliding scale production royalty ranging from 2% to 10.5%, or to a net smelter returns royalty, the terms of which are negotiated on a case-by-case basis. In order to maintain the leases in good standing, the Company must make aggregate rental payments of \$159,096 through February 28, 2014. Minimum rental payments due in the next five years are as follows:

|      | \$     |
|------|--------|
| 2010 | 24,927 |
| 2011 | 19,167 |
| 2012 | 38,334 |
| 2013 | 38,334 |
| 2014 | 38,334 |

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$10,788 (2009 - \$721,131) relating to the Michigan properties and received and/or accrued recoveries of \$14,107 (2009 - \$64,368) from Cameco Corporation.

(b) GK Property, B.C., Canada

The Company owns a 100% interest in the GK Property located approximately 10 kilometres east of the town of Beaverdell, British Columbia. The vendors retain a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$1,249 (2009 - \$22,163) relating to the GK property.

(c) Mineral Creek Property, B.C., Canada

The Company owns a 100% interest in the Mineral Creek Property, located near Port Alberni, British Columbia. The vendors retain a combined 3.5% net smelter returns royalty. In addition, the Company owns a 100% interest in four adjoining mineral claims.

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$192,576 (2009 - \$973,292) relating to the Mineral Creek property and received recoveries of \$22,082 (2009 - \$22,572).

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**BITTERROOT RESOURCES LTD.**  
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**3. Resource Properties** *(Cont'd)*

(d) North Brenda Property, B.C., Canada

The Company owns a 100% interest in the North Brenda molybdenum/copper/gold property in south western British Columbia. The vendors retain a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$84,296 (2009 - \$125,945) relating to the North Brenda property.

(e) SPN Property, B.C., Canada

The Company owns acquire a 100% interest in the SPN claims, which are located approximately 20 kilometres southeast of Barriere, British Columbia. In order to earn this interest, the Company paid \$10,000 and issued 584,783 common shares at a value of \$102,000. The vendor will also retain a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$54,711 (2009 - \$20,761) relating to the SPN property.

(f) Big Southeaster Property, B.C., Canada

The Company owns a 100% interest in the Big Southeaster property which adjoins the south side of the Mineral Creek property. The vendors will retain a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the three month period ended January 31, 2010, the Company incurred acquisition and exploration expenditures of \$894 (2009 - \$57,096) relating to the Big Southeaster property.

**4. Equipment**

|                        | <b>January 31<br/>2010</b> |                                     | <b>October 31<br/>2009</b> |                           |
|------------------------|----------------------------|-------------------------------------|----------------------------|---------------------------|
|                        | <b>Cost</b>                | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Book Value</b>  | <b>Net<br/>Book Value</b> |
|                        | \$                         | \$                                  | \$                         | \$                        |
| Computer hardware      | 9,396                      | 8,556                               | 840                        | 908                       |
| Field equipment        | 20,095                     | 16,652                              | 3,443                      | 3,723                     |
| Furniture and fixtures | 8,350                      | 3,998                               | 4,352                      | 4,581                     |
| Leasehold improvements | 5,655                      | 5,433                               | 222                        | 234                       |
|                        | <b>43,496</b>              | <b>34,639</b>                       | <b>8,857</b>               | <b>9,446</b>              |

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**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. Asset Retirement Obligation**

The Company's obligations with respect to asset retirement relate to reclamation of the Mineral Creek Property site. The obligation is recognized in the period in which the obligation is created based on the estimated future reclamation costs using a credit-adjusted risk-free rate of 10 percent and estimated inflation of 1.92 percent annually. The total undiscounted future obligation is \$53,315. The Company estimates its obligations to be settled over approximately the next 10 years.

|                                   |               |
|-----------------------------------|---------------|
|                                   | \$            |
| <b>Balance – October 31, 2009</b> | 22,611        |
| Accretion expense                 | <u>565</u>    |
| <b>Balance – January 31, 2010</b> | <u>23,176</u> |

**6. Share Capital**

(a) Authorized

The authorized share capital consists of 100,000,000 common shares without par value.

(b) Common Shares Issued

|   | Number<br>Of Shares | Amount<br>\$      |
|---|---------------------|-------------------|
| <b>Balance - October 31, 2009</b>                             | 69,432,044          | 19,049,894        |
| Issued for cash   |                     |                   |
| Pursuant to private placements                                | 5,901,666           | 708,200           |
| Exercise of warrants  | -                   | -                 |
| Resource property option payments                             | 434,783             | 50,000            |
| Share issue costs   | -                   | (47,511)          |
| Future income taxes on expenditures renounced to shareholders | -                   | <u>(278,097)</u>  |
| <b>Balance – January 31, 2010</b>                             | <u>75,768,493</u>   | <u>19,482,486</u> |

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**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. Share Capital** *(Cont'd)*

(b) Common Shares Issued *(Cont'd)*

During the three month period ended January 31, 2010, the Company issued common shares pursuant to the following:

- (i) On December 10, 2009, the Company issued 5,901,666 flow-through common shares priced at \$0.12 per share and 250,000 non-transferable broker warrants to purchase common shares at \$0.12 expiring December 10, 2011, which were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$17,511 and was recorded as a share issue cost.
- (ii) On January 13, 2010, the Company issued 434,783 common shares to complete the acquisition of a 100% interest in the SPN property. The fair value of the shares was \$50,000 and was capitalized to the SPN property as an acquisition expenditure.

The following weighted average assumptions were used for the Black-Scholes valuation of broker warrants in the three month period ended January 31, 2010:

|                         |         |
|-------------------------|---------|
| Volatility              | 131%    |
| Risk-free interest rate | 1.68%   |
| Dividend yield          | -       |
| Expected life           | 2 years |

**Flow through shares** - Of the shares issued during the three month period ended January 31, 2010, 5,901,666 were issued on a flow through basis whereby the Company had previously spent \$708,200 on Canadian exploration expenditures and renounced these expenditures to shareholders.

**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. Share Capital (Cont'd)**

(c) Warrants

Warrant transactions are summarized as follows:

|                                   | Number Of<br>Warrants | Weighted Average<br>Exercise Price |
|-----------------------------------|-----------------------|------------------------------------|
|                                   |                       | \$                                 |
| <b>Balance - October 31, 2009</b> | 628,800               | 0.21                               |
| Issued                            | 250,000               | 0.12                               |
| Expired                           | (64,800 )             | 0.12                               |
| Exercised                         | -                     | -                                  |
| <b>Balance – January 31, 2010</b> | <b>814,000</b>        | <b>0.19</b>                        |

The following share purchase warrants (convertible to an equivalent number of common shares) were outstanding at January 31, 2010:

| Number Of Warrants | Exercise Price | Expiry Date       |
|--------------------|----------------|-------------------|
|                    | \$             |                   |
| 240,000            | 0.35           | March 14, 2010    |
| 54,000             | 0.17           | July 26, 2010     |
| 210,000            | 0.12           | December 2, 2010  |
| 60,000             | 0.12           | December 16, 2010 |
| 250,000            | 0.12           | December 10, 2011 |
| <b>814,000</b>     |                |                   |

**7. Contributed Surplus**

The Company's contributed surplus is comprised of the following:

|                                   |                  |
|-----------------------------------|------------------|
|                                   | \$               |
| <b>Balance – October 31, 2009</b> | 2,891,574        |
| Stock-based compensation          | 46,097           |
| Broker warrants                   | 17,511           |
| <b>Balance – January 31, 2010</b> | <b>2,955,182</b> |

**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. Stock Option Plan and Stock-Based Compensation**

The Company, in accordance with the policies of the TSX Venture Exchange, has a stock option plan in place under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

Pursuant to the option plan, options granted in respect of investor relations activities are subject to vesting restrictions such that one-quarter of the options vest three months from the date of grant and in each subsequent three-month period thereafter such that the entire option will have vested twelve months after the award date. Vesting restrictions may also be applied to certain other options grants, at the discretion of the directors.

Stock option transactions and the number of stock options outstanding are summarized as follows:

|                                   | Number<br>Of Options | Weighted<br>Average<br>Exercise Price<br>\$ |
|-----------------------------------|----------------------|---|
| <b>Balance - October 31, 2009</b> | 6,244,500            | 0.41  |
| Options granted                   | 755,000              | 0.12  |
| Options exercised                 | -                    | -   |
| Options expired and forfeited     | -                    | -   |
| <b>Balance – January 31, 2010</b> | <b>6,999,500</b>     | <b>0.38</b>                                 |

The following stock options were outstanding and exercisable at January 31, 2010:

| Range Of<br>Exercise Price | Options Outstanding    |   |  | Options Exercisable    |  |
|----------------------------|------------------------|---|--|------------------------|--|
|                            | Options<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual Life<br>years | Weighted<br>Average<br>Exercise<br>Price<br>\$ | Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price<br>\$ |
| 0.12 – 0.24                | 2,745,000              | 4.46  | 0.14   | 2,620,000              | 0.14   |
| 0.25 – 0.49                | 1,659,500              | 2.08  | 0.36   | 1,659,500              | 0.36   |
| 0.50 – 0.74                | 2,050,000              | 1.52  | 0.61   | 2,050,000              | 0.61   |
| 0.75 – 0.99                | 545,000                | 3.17  | 0.80   | 545,000                | 0.80   |
|                            | <b>6,999,500</b>       | <b>2.94</b>   | <b>0.38</b>                                    | <b>6,874,500</b>       | <b>0.38</b>                                    |

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**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**8. Stock Option Plan and Stock-Based Compensation** *(Cont'd)*

Total compensation expense recognized for stock options granted during the three month period ended January 31, 2010, was \$46,096 (2009 – \$4,567). Stock based compensation of \$7,845 (2009 – \$nil) was capitalized to resource properties for options granted to consultants and \$38,251 (2009 - \$4,567) was expensed to operations for options granted to directors and employees of the Company.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options in the three month period ended January 31, 2010:

|                         |         |
|-------------------------|---------|
| Volatility              | 100%    |
| Risk-free interest rate | 2.68%   |
| Dividend yield          | -       |
| Expected life           | 5 years |

**9. Supplemental Cash Flow Information**

| Three Month Period Ended January 31          | 2010 | 2009 |
|--|------|------|
|  | \$   | \$   |
| Cash paid during the period for income taxes | -    | -    |
| Cash paid during the period for interest     | -    | -    |

During the three month period ended January 31, 2010, the Company issued 434,783 (2009 – 150,000) shares in respect of option payments for resource properties, with a fair value of \$50,000 (2009 - \$23,000).

**10. Related Party Transactions**

The following is a summary of related party transactions and balances for the three month period ended January 31, 2010, not disclosed elsewhere in the financial statements:

- Management fees of \$24,000 (2009 - \$24,000) were incurred from a company controlled by a director in common. These fees were recorded at their exchange amount, which is the amount agreed upon by the transacting parties on terms and conditions similar to non-related entities.
- Stock-based compensation includes stock options granted to directors recorded at a fair value of \$36,237 (2009 - \$nil).

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**11. Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2010 are presented below:

|  | \$                 |
|--|--------------------|
| Net operating loss carry-forwards      | 549,329            |
| Capital loss carry-forwards            | 30,678             |
| Resource properties                    | (1,801,570)        |
| Equipment                              | 9,739              |
| Share issuance costs                   | 66,245             |
|  | <hr/>              |
| <b>Net future income tax liability</b> | <b>(1,145,579)</b> |

The Company has approximately \$2,197,000 of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

|      | \$               |
|------|------------------|
| 2010 | 114,000          |
| 2014 | 179,000          |
| 2015 | 242,000          |
| 2026 | 273,000          |
| 2027 | 414,000          |
| 2028 | 475,000          |
| 2029 | 500,000          |
|      | <hr/>            |
|      | <b>2,197,000</b> |

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**12. Segmented Information**

(a) Industry Information

The Company operates in one reportable operating segment, being the acquisition, exploration and development of resource properties.

(b) Geographic Information

The Company operates in both Canada and the U.S.A. The Company's resource properties and equipment in geographical locations are as follows:

|        | January 31<br>2010 | October 31<br>2009 |
|--------|--------------------|--------------------|
|        | \$                 | \$                 |
| Canada | 12,092,456         | 11,781,401         |
| U.S.A. | 3,315,394          | 3,318,713          |
|        | <u>15,407,850</u>  | <u>15,100,144</u>  |

**13. Financial Instruments**

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

|                                   | January 31<br>2010 | October 31<br>2009 |
|-----------------------------------|--------------------|--------------------|
|                                   | \$                 | \$                 |
| Held for trading (i)              | 1,065,829          | 758,215            |
| Loans and receivables (ii)        | 457,546            | 525,772            |
| Other financial liabilities (iii) | 84,210             | 182,435            |
|                                   | <u>1,607,585</u>   | <u>1,466,422</u>   |

- (i) Cash and cash equivalents
- (ii) Receivables
- (iii) Accounts payable and accrued liabilities

The estimated fair values of cash and cash equivalents, receivable and accounts payable and accrued liabilities approximate their respective carrying values due to their nature and short terms to maturity.

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**14. Management of Capital**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties. The Company considers as its capital its shareholders' equity.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of certain of its assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors'.

There are no external restrictions on management of capital.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments. When utilized, these instruments are selected with regard to the expected timing of expenditures from continuing operations. The Company currently has sufficient capital resources to meet its planned operations and administrative overhead expenses through its current operating period. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

**15. Financial Instruments Risk Exposure and Management**

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Capital Risk Management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in the shareholder's equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As of January 31, 2010 the Company does not have any long-term debt and is not subject to externally imposed capital requirements.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

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**15. Financial Instruments Risk Exposure and Management** *(Cont'd)*

(c) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, reclamation deposits, and accounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents, and reclamation deposits with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents are held with major Canadian based financial institutions. The reclamation deposit is also held at a major Canadian based financial institution.

(d) Currency Risk

The Company's operations are in Canada and the United States. The international nature of the Company's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(e) Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are generally held with large financial institutions

**16. Subsequent Events**

- (a) The British Columbia provincial government has approved the Company's Mining Exploration Tax Credit claim of \$372,692, relating to the fiscal year ending October 31, 2008. The full amount claimed, plus interest, was received on February 10, 2010.
- (b) Under the terms of its stock option plan, the Company granted incentive stock options to acquire 620,000 common shares at \$0.10 per share, expiring March 21, 2015.

**17. Comparative Figures**

Certain figures from the previous year have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously-reported results.