

**BITTERROOT RESOURCES LTD.  
MANAGEMENT DISCUSSION & ANALYSIS**

For the period ended July 31, 2010

As of September 28, 2010

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## **BITTERROOT RESOURCES LTD. MANAGEMENT DISCUSSION & ANALYSIS**

For the period ended July 31, 2010

As of September 28, 2010

### **SUMMARY OF ACTIVITIES**

In the nine months ended July 31, 2010, the majority of Bitterroot Resources Ltd.'s expenditures were for drilling and bulk sampling at the Mineral Creek gold project and surface exploration on the North Brenda property in British Columbia. The majority of these expenditures were incurred in first quarter (late fall of 2009). In the third quarter, exploration for Ni/Cu/PGE deposits in Michigan resumed and historical data compilation on the Mineral Creek project identified new gold and polymetallic base metals targets. Capitalized exploration expenditures in the nine month period (net of recoveries, stock-based compensation and acquisition costs), were \$568,499. Funding from BC Mineral Exploration Tax Credits, bullion sales and Cameco Corporation contributed \$452,972 to Bitterroot's working capital during the period, while expenses (net of stock-based compensation) were \$291,772.

### **INTRODUCTION**

Bitterroot Resources Ltd. is a mineral resource company engaged directly and indirectly through its wholly-owned subsidiaries, (collectively referred to herein as "the Company" or "Bitterroot"), in the acquisition, exploration and development of mineral properties. In Michigan, Bitterroot's wholly-owned subsidiary owns recorded mineral title interests covering approximately 363 square miles in the Upper Peninsula. On Vancouver Island, BC, the Company owns a 100 percent interest in the Mineral Creek gold property and the contiguous Big Southeaster gold/base metals project near Port Alberni, BC. In southern BC, the Company owns 100 percent interests in the GK gold property, North Brenda (Au/Mo/Cu) project and the SPN (base metals) project.

During the nine months ended July 31, 2010, gold prices continued to climb, while base metals prices and global equity markets posted modest declines and displayed significant volatility. The Company is exposed to commodity price and equity market risk due to the cyclical nature of the mineral exploration business. Management currently seeks to minimize commodity risk by exploring for a number of mineral commodities (nickel, copper, gold, uranium and zinc) and seeks to minimize exploration costs and political risk by operating in mining-friendly road-accessible locations in North America (southern British Columbia, Vancouver Island and Michigan).

The following Management Discussion and Analysis (MD&A) should be read in conjunction with Bitterroot Resources Ltd.'s consolidated financial statements for the nine months ended July 31, 2010 and the annual audited financial statements and MD&A for the year ended October 31, 2009. This information is available on [www.sedar.com](http://www.sedar.com) or on the Company's website ([www.bitterrootresources.com](http://www.bitterrootresources.com)).

## **OVERALL PERFORMANCE**

### **Results of Operations**

#### **Michigan**

Bitterroot's field crews have resumed exploration for nickel/copper deposits in the Upper Peninsula of Michigan. Geophysical and geological surveys are currently underway, with the goal of defining drill targets which could be tested in the winter of 2010/2011, subject to financing. No work is currently planned on lands subject to the Cameco joint venture.

Kennecott Eagle Minerals Company (KEMC) recently drill-tested the PGE-bearing Echo Lake layered intrusion at a site located approximately 200 metres from Bitterroot's 100 percent-owned mineral rights. Bitterroot's mineral rights cover approximately 50% of the 10 km-long and 3 km-wide magnetic signature of the Echo Lake layered intrusion.

In the nine months ended July 31, 2010, Bitterroot spent \$62,382 on its Michigan exploration projects, net of stock-based compensation and recoveries, mainly on mineral lease and geological consulting costs. Mr. Andy Bite, P. Geo is the Qualified Person responsible for the Company's Ni/Cu/PGE exploration programs in Michigan.

#### **Mineral Creek Gold Project, British Columbia**

In the nine months ended July 31, 2010, exploration data collected during the past 30 years was compiled into a GIS database. This work has identified several extensive (~500-800 metres long), untested copper and/or zinc-in-soil anomalies on the northern and western portions of the Mineral Creek property. These areas are prospective for volcanogenic massive sulphide mineralization similar to the Myra Falls Cu/Pb/Zn/Au/Ag orebodies. Exploration crews recently collected 390 soil samples which verified the tenor and location of these anomalies. Airborne geophysical surveys are expected to define drill targets prior to the end of 2010.

Two areas of untested, strongly anomalous gold-in-soil geochemistry were also located immediately to the north and northwest of the Mineral Creek Zone. These areas are characterized by two adjoining 300 metre-long, linear zones of anomalous gold-in-soils that suggest the presence of near-surface gold mineralization, with supporting IP or magnetic responses. The gold-in-soil results received from these two areas comprise some of the higher values returned from the soil sampling done on the property by Westmin Resources.

In June, Mineral Creek Ventures Inc. resumed bulk sampling activities on the Linda vein. In the nine months ended July 31, 2010, Bitterroot received \$62,386 for its 50% share of proceeds of gold and silver recovered from the bulk sample, all of which was derived from material mined and processed in the Company's first quarter (late 2009). Subsequent to the end of the quarter, 30.5 ounces of gold were sold by the project operator at US\$1,265. Approximately one tonne of gold-bearing sulphide concentrates are currently in inventory and will be processed over the next few months.

In the nine months ended July 31, 2010, Bitterroot spent \$357,920 on the Mineral Creek project, net of stock-based compensation and recoveries, mainly on drilling and geological consulting in the first quarter (late 2009). Mr. Charles Greig, P.Ge is the Qualified Person responsible for the design and implementation of exploration programs on the Mineral Creek project. Mr. Michael Becherer, P.Ge is the Qualified Person responsible for bulk sampling.

### **North Brenda Gold/Copper/Molybdenum Project, British Columbia**

In late 2009, excavator trenching on Bitterroot's 100 percent-owned North Brenda property discovered a high-grade gold-bearing vein within a previously unexplored structural zone. The trenches tested the apparent sources of several gold-in-soil anomalies. Five of the channel samples collected across the exposed portion of the vein returned greater than 19 g/t gold over true widths ranging from 9 to 25 cm, with a high value of 57.6 g/t gold and 9.3 g/t silver over 11 cm. Cross trenches exposed the vein along a strike length of 100 metres and have also intersected parallel mineralized quartz veins. There is a strong hydrothermal alteration envelope around the veins and untested gold-in-soil anomalies along trend, all within a coincident magnetic low. These features suggest good potential for the discovery of an unexplored gold-bearing system. The geological setting and style of gold mineralization are similar to the 650,000-ounce Elk gold deposit, located 20 km southwest of North Brenda. Several new gold/silver-in-soil anomalies have been defined on the North Brenda property, as were two prominent copper/molybdenum-in-soil anomalies. An aeromagnetic survey is planned in 2010.

In the nine months ended July 31, 2010, Bitterroot spent \$101,284 on the North Brenda project, net of stock-based compensation and recoveries, mainly on geological consulting and geochemical analyses completed in the first quarter (late 2009). Mr. Charles Greig, P.Ge is the Qualified Person responsible for the design and implementation of exploration programs on the North Brenda project.

### **SPN Copper/Gold Project, British Columbia**

The SPN property is prospective for volcanogenic massive sulphide deposits similar to those found elsewhere on the Adams Plateau. Geological mapping of the SPN property was done in the third quarter and gravity surveys are underway to further define drill targets.

In the nine months ended July 31, 2010, Bitterroot incurred costs of \$66,951 on the SPN project, net of stock-based compensation and recoveries, mainly on acquisition costs incurred in the first quarter and geological consulting in the third quarter. Mr. Charles Greig, P.Ge is the Qualified Person responsible for the design and execution of exploration programs on the SPN project.

### **GK Gold/Silver Project, British Columbia**

The GK property hosts intrusion-related gold/sulphide mineralization. The Company is currently focusing exploration within a two kilometre-square area around the Hornet zone and several newly identified areas with anomalous gold-in-soil. Additional trenching is planned in 2010.

In the nine months ended July 31, 2010, Bitterroot spent \$25,981 on the GK Project, net of stock-based compensation and recoveries, mainly on geological consulting and geochemical analyses. Mr. Charles Greig, P. Geo is the Qualified Person responsible for the design and implementation of exploration programs on the GK project.

## **Financial Condition**

At July 31, 2010, Bitterroot had working capital of \$1,027,954 which included \$67,237 due from BC Mineral Exploration Tax Credits (BC METC), accrued interest of \$889 and \$25,910 due from GST/HST refunds. Resource properties had a book value of \$15,655,346 compared to \$15,090,668 at the beginning of the period. The increase in book value is mainly due to exploration expenditures on the Michigan, Mineral Creek and North Brenda properties. For the three months ended July 31, 2010, cash outflows exceeded cash inflows by \$271,929. Cash outflows were mainly comprised of seasonal normal course resource property expenditures plus operating expenses of \$79,946 (net of stock-based compensation and amortization).

## **Summary of Financial Results**

During the nine months ended July 31, 2010, the Company had a loss before income taxes of \$352,717, compared to a net loss of \$476,188 in the first nine months of the prior year. The decreased loss during the most recent nine month period compared to the first nine months of the previous year was mainly attributable to reduced foreign exchange losses on US dollar cash holdings and lower stock-based compensation charges. Excluding stock-based compensation, recoveries and amortization charges, the Company's operating expenses for the nine month period were \$273,906, which is approximately 19% lower than operating expenses incurred during the same period of the previous year, mainly due to lower foreign exchange losses on US dollar cash balances.

## **Changes in Accounting Policies**

### **International Financial Reporting Standards ("IFRS")**

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the quarter ended January 31, 2011. While the Company has begun assessing the adoption of IFRS

for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## SUMMARY OF QUARTERLY RESULTS

The following tables set forth a comparison of revenues and expenses for the previous eight quarters ending with July 31, 2010. Financial information is prepared according to Canadian GAAP and is reported in Canadian dollars.

	<b>Quarter Ended July 31, 2010</b>	<b>Quarter Ended April 30, 2010</b>	<b>Quarter Ended Jan 31, 2010</b>	<b>Quarter Ended Oct 31, 2009</b>
Interest Income	273	4,050	1,245	2,079
Income (loss) for the period	(80,595)	(139,045)	145,020	(112,266)
General and administrative	(80,868)	(143,095)	(134,322)	(114,345)
Stock-based compensation	(183)	(28,079)	(38,251)	(26,060)
Write-off of resource property	-	-	-	-
Net Earnings (Loss) per share <u>Basic and diluted</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>0.00</u>	<u>(0.00)</u>

	<b>Quarter Ended July 31, 2009</b>	<b>Quarter Ended April 30, 2009</b>	<b>Quarter Ended Jan 31, 2009</b>	<b>Quarter Ended Oct 31, 2008</b>
Interest income	3,052	17,277	43	28,832
Income (loss) for the period	(211,341)	(187,957)	703,061	(647,231)
General and administrative	(216,505)	(205,184)	(76,933)	(79,090)
Stock-based compensation	(97,930)	(84,186)	(4,567)	(142,166)
Write-off of resource property	-	-	-	(64,850)
Net Earnings (Loss) per share <u>Basic and diluted</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>0.01</u>	<u>(0.01)</u>

## LIQUIDITY

During the nine months ended July 31, 2010, the Company received;

- \$708,200 (before share issue costs) from a private placement of 5,901,666 flow-through common shares priced at \$0.12,
- \$ 14,107 of exploration cost recoveries and management fees from Cameco Corporation,
- \$ 376,479 from BC METC refunds for exploration done in 2008,
- \$ 62,386 from bullion sales from the Mineral Creek property,

The Company's working capital at July 31, 2010 was \$1,027,954, compared to working capital of \$1,125,240 at October 31, 2009. Current liabilities at July 31, 2010 were \$84,876, consisting

of accounts payable incurred in the normal course of the mineral exploration business. At July 31, 2010, there were 520,000 share purchase warrants outstanding, which were exercisable at \$0.12. During the nine month period, 358,800 warrants expired and 250,000 warrants exercisable at \$0.12 were issued as compensation to brokers. If exercised, the 520,000 warrants outstanding at September 28, 2010 would generate proceeds of \$62,400. At July 31, 2010 there were 7,574,500 incentive stock options outstanding, which if exercised would provide proceeds to the Company of approximately \$2,461,420.

Bitterroot has sufficient cash reserves to fund its operating expenses in 2010. In the second quarter of 2010, an initial exploration budget of \$200,000 was allocated to five surface exploration programs on the Mineral Creek, GK, SPN, North Brenda and Michigan projects. Encouraging results have been received from the Michigan, North Brenda and Mineral Creek projects, which have resulted in the allocation of an additional \$300,000 for airborne geophysical surveys on these properties.

Bitterroot's ability to meet its ongoing financial obligations will be determined by management's success in acquiring mineral properties, obtaining equity financing, negotiating joint venture arrangements and facilitating the exercise of outstanding share purchase warrants and options. There can be no assurance that the Company will be able to continue to raise funds, in which case it may be unable to meet its obligations. Should Bitterroot be unable to realize its assets and discharge its liabilities in the normal course of business, the realizable value of its assets may be materially less than the amounts recorded on the balance sheets. Details of funding commitments required to retain the mineral rights leased from the State of Michigan are disclosed in Note 3 of the Consolidated Financial Statements for the nine months ended July 31, 2010. Funds needed to maintain the Company's BC mineral exploration projects is currently limited to costs associated with preparing assessment reports and filing assessment work.

### **THIRD QUARTER**

During the third quarter, the Company's financial condition was not materially affected by extraordinary items or adjustments. Surface exploration was done during the quarter on the Mineral Creek, GK, North Brenda, SPN and Michigan projects. The main exploration expenditures were for geological consulting costs incurred for data compilation and bulk sampling on the Mineral Creek project, plus geophysical surveys in Michigan. Cash balances decreased by \$271,929 during the third quarter, mainly due to the resumption of field exploration activities. Bulk sampling activities generated no cash during the quarter, as inventories of gold/sulphide concentrates were built up. Recovery of saleable gold/silver products from these concentrates is underway. The carrying value of the Company's resource properties increased by \$217,115 and no common shares were issued during the quarter.

### **RELATED PARTY TRANSACTIONS**

The following is a summary of related party transactions and balances for the nine months ended July 31, 2010.

- The Company incurred management fees of \$72,000 with a company controlled by the President of the Company.
- Incentive stock options were granted to Directors and recorded at a fair value of \$36,737.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

### **Outstanding Share Data**

- a) Authorized Capital:  
100,000,000 common shares without par value
- b) Number and Recorded Value for shares Issued and Outstanding as at July 31, 2010 was 75,768,493 common shares with a recorded value of \$19,482,486.  
As of the date of this report there are 75,768,493 common shares outstanding.
- c) Options outstanding at July 31, 2010

Number of Options	Exercise Price	Expiry Date
1,125,000	0.53	April 4, 2011
775,000	0.70	January 11, 2012
100,000	0.99	April 4, 2012
525,000	0.35	September 14, 2012
340,000	0.36	February 7, 2013
60,000	0.40	June 8, 2013
445,000	0.76	June 24, 2013
124,500	0.26	September 17, 2013
855,000	0.13	February 9, 2014
1,060,000	0.17	July 30, 2014
755,000	0.12	December 20, 2014
620,000	0.10	March 21, 2015
790,000	0.10	July 8, 2015

- d) Warrants outstanding at July 31, 2010

Number of Warrants	Exercise Price	Expiry Date
210,000	\$0.12	December 2, 2010
60,000	\$0.12	December 16, 2010
250,000	\$0.12	December 10, 2011

### **Stock-based Compensation**

Total compensation expense recognized for stock options granted during the nine months ended July 31, 2010 was \$66,513 (period ended July 31, 2009 - \$186,683).

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information. Our auditors have not reviewed the contents of this MD&A.

**Additional information on the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).**

## **FORWARD LOOKING STATEMENTS**

**This document contains statements about expected or anticipated future events and financial results that are forward-looking in nature and as a result, are subject to certain risks and uncertainties, such as general economic, market and business conditions, regulatory processes and actions, technical issues, new legislation, competitive conditions, the uncertainties resulting from potential delays or changes in plans, the occurrence of unexpected events and the company's ability to execute and implement its future plans. Actual results may differ materially from those projected by management. For such statements, we claim the safe harbour for forward-looking statements within the meaning of the Private Securities Legislation Reform Act of 1995.**

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