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**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2010 AND 2009**

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## AUDITORS' REPORT

To the Shareholders of  
Bitterroot Resources Ltd.

We have audited the consolidated balance sheets of Bitterroot Resources Ltd. as at October 31, 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at October 31, 2009 and for the period then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated February 12, 2010.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

February 21, 2011



**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)  
**AS AT OCTOBER 31**

	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	585,399	758,215
Accounts receivable - other	118,137	525,772
Prepaid expenses	9,428	23,688
	<u>712,964</u>	<u>1,307,675</u>
<b>Reclamation Deposit</b>	23,300	15,800
<b>Resource Properties</b> (Note 3)	13,503,868	15,090,668
<b>Equipment</b> (Note 4)	12,513	9,446
	<u>14,252,645</u>	<u>16,423,589</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	182,103	182,435
<b>Asset Retirement Obligation</b> (Note 5)	24,872	22,611
<b>Future Income Taxes</b> (Note 11)	1,367,067	1,145,579
	<u>1,574,042</u>	<u>1,350,625</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 6)	19,528,877	19,049,894
<b>Contributed Surplus</b> (Note 7)	3,025,141	2,891,573
<b>Deficit</b>	(9,875,415)	(6,868,503)
	<u>12,678,603</u>	<u>15,072,964</u>
	<u>14,252,645</u>	<u>16,423,589</u>

**Continuing Operations** (Note 1)  
**Commitments** (Note 16)  
**Subsequent Events** (Note 17)

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, COMPREHENSIVE LOSS**  
**AND DEFICIT**

(Expressed in Canadian Dollars)  
FOR THE YEARS ENDED OCTOBER 31

	2010	2009
	\$	\$
<b>Revenues</b>	-	-
<b>Expenses</b>		
Accretion	2,261	2,056
Amortization	2,954	3,188
Foreign exchange loss	3,966	56,187
Interest and bank charges	1,980	2,845
Management fees (Note 10)	96,000	96,000
Office and printing	123,373	111,838
Professional fees	73,048	105,338
Property investigation (recoveries)	57,513	(13,345)
Regulatory fees	7,478	8,214
Shareholder information	11,319	14,099
Stock-based compensation (Note 8)	87,060	212,743
Transfer agent fees	15,160	13,804
	<u>(482,112)</u>	<u>612,967</u>
<b>Loss Before Other Items and Income Taxes</b>	(482,112)	(612,967)
<b>Other Items</b>		
Interest income	6,637	22,401
Write-off of resource properties	(2,541,697)	-
Gain on sale of equipment	-	2,112
	<u>(2,535,060)</u>	<u>24,513</u>
<b>Loss Before Income Taxes</b>	(3,017,172)	(588,454)
Future income tax recovery (Note 11)	10,260	425,121
<b>Net Loss and Comprehensive Loss for the Year</b>	(3,006,912)	(163,333)
Deficit, beginning of year	<u>(6,868,503)</u>	<u>(6,705,170)</u>
<b>Deficit, End Of Year</b>	<u>(9,875,415)</u>	<u>(6,868,503)</u>
<b>Basic And Diluted Loss Per Share</b>	(0.04)	(0.00)
<b>Weighted Average Number Of Shares Outstanding</b>	75,033,587	66,373,614

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

**BITTERROOT RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEARS ENDED OCTOBER 31

	2010	2009
	\$	\$
<b>Cash Flows From Operating Activities</b>		
Loss for the year	(3,006,912)	(163,333)
Items not involving cash:		
Amortization	2,954	3,188
Accretion	2,261	2,056
Write-off of resource properties	2,541,697	-
Gain on sale of equipment	-	(2,112)
Future income tax recovery	(10,260)	(425,121)
Stock-based compensation	87,060	212,743
Changes in non-cash working capital:		
Accounts receivable - other	34,943	31,142
Prepaid expenses	14,260	(2,281)
Accounts payable and accrued liabilities	(29,058)	(310,915)
Net cash used in operating activities	(363,055)	(654,633)
<b>Cash Flows From Financing Activities</b>		
Capital stock issued	708,200	1,020,350
Share issuance costs	(30,000)	(77,748)
Net cash received from financing activities	678,200	942,602
<b>Cash Flows From Investing Activities</b>		
Reclamation deposits	(7,500)	-
Purchase of capital assets	(6,021)	-
Disposal of equipment	-	3,500
Resource property expenditures	(943,153)	(2,611,977)
Recoveries of resource property expenditures	468,713	2,696,766
Net cash used in investing activities	(487,961)	88,289
<b>Increase (Decrease) in Cash and Cash Equivalents During the Year</b>	(172,816)	376,258
<b>Cash and cash equivalents, beginning of year</b>	758,215	381,957
<b>Cash and Cash Equivalents, End of Year</b>	585,399	758,215
<b>Cash and Cash Equivalents Consist of:</b>		
Bank deposits	373,299	308,215
Guaranteed investment certificate	212,100	450,000
	585,399	758,215

**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**  
(Expressed in Canadian Dollars)  
FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

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**1. Continuing Operations**

Bitterroot Resources Ltd. (the "Company"), 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 October 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 incurred a loss of \$3,006,912 for the year ended October 31, 2010 (2009 - \$163,333), and had a deficit of \$9,875,415 at October 31, 2010 (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.

**2. Significant Accounting Policies**

(a) Basis of Presentation and Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, are expressed in Canadian dollars, and include the accounts of the Company, and its wholly-owned subsidiaries, Trans Superior Resources, Inc. and Voyageur Lands Corporation, both of which are Michigan, USA corporations. All inter-company balances and transactions have been eliminated upon consolidation. Certain figures from the previous year have been reclassified to conform to the current year's presentation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to resource properties, future income tax liabilities, asset retirement obligation, valuation of warrants and the valuation of stock-based compensation. Management believes the estimates are reasonable.

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**BITTERROOT RESOURCES LTD.**  
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**2. Significant Accounting Policies (Continued)**

(c) Resource Properties

The Company accounts for resource properties in accordance with the Canadian Institute of Chartered Accountants Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and EIC abstract 174, "Mining Exploration Costs" ("EIC 174") of the Emerging Issues Committee. CICA 3061 provides for the capitalization of the acquisition and exploration costs of a mining property where such costs are considered to have the characteristics of property, plant and equipment. EIC 174 provides that a mining enterprise is not precluded from considering exploration costs to have the characteristics of property, plant and equipment when it has not established mineral reserves objectively and, therefore, does not have a basis for preparing a projection of the estimated future net cash flow from the property.

Resource properties include initial acquisition costs and related option payments, which are recorded when paid. Exploration and development costs are capitalized until properties are brought into production, at which time costs are amortized on a unit of production basis over economically recoverable reserves. Option payments and cost recoveries are credited against resource property costs when received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received.

CICA 3061 also provides that property, plant and equipment be written down when the long-term expectation is that the net carrying amount will not be recovered. EIC 174 states that a mining enterprise which has not objectively established mineral reserves and, therefore, does not have a basis for preparing a projection of the estimated future cash flow from a property is not obliged to conclude that the capitalized costs have been impaired.

However, EIC 174 references certain conditions that should be considered in determining subsequent write-downs, such as significant changes or abandonment of a work program, the remaining lease terms are insufficient to conduct exploration work, a delay in development that extends beyond three years or poor exploration results, and management reviews such conditions to determine whether a write-down of capitalized costs is required. When the carrying value of a property exceeds its net recoverable amount, provision is made for the impairment in value.

(d) Equipment

Equipment is recorded at cost, including betterment and renewals subsequent to acquisition, less accumulated amortization. When equipment is sold or abandoned, the recorded costs and related accumulated amortization are removed from the accounts and any gains or losses are included in the determination of net earnings. Repairs and maintenance are recorded as an expense as incurred.

Amortization is calculated on the declining balance method at the following rates per annum:

Computer hardware	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	20%
Field equipment	-	30%

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**2. Significant Accounting Policies (Continued)**

(d) Equipment (Continued)

The Company reviews the carrying value of equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset exceeds the estimate of undiscounted future cash flows from the asset. At that time, the carrying amount is written down to fair value.

(e) Foreign Currency Translation

Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in income.

(f) Earnings/Loss Per Share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of "in the money" stock options and warrants.

(g) Stock-Based Compensation Plan

The Company has a plan for granting stock options to directors, employees and consultants as described in Note 8. The Company recognizes compensation expense under this plan using the fair value method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of stock options granted to employees is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Upon the exercise of stock options, consideration paid and the fair value of amounts previously credited to contributed surplus are recorded as share capital. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted.

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**2. Significant Accounting Policies (Continued)**

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when temporary differences are recovered or settled. The effect on future tax assets and liabilities of changes in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(i) Flow-Through Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related exploration expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. When flow-through expenditures are renounced, a portion of future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

The Company follows the recommendations of EIC-146 with respect to flow-through shares. The application of EIC-146 requires the recognition of the foregone tax benefit on the date the Company renounces the tax credits associated with the exploration expenditures, provided there is reasonable assurance that the expenditures will be made.

(j) Asset Retirement Obligations

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations". This standard requires liability recognition for retirement obligations associated with the Company's resource properties. The standard requires the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statements of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties. For the years ended October 31, 2010 and 2009 the Company identified asset retirement obligations relating to its Mineral Creek property (Note 5).

(k) Cash And Cash Equivalents

Cash and cash equivalents include demand deposits and guaranteed investment certificates that on acquisition have a term to maturity of twelve months or less, or may be redeemed during this period. These guaranteed investment certificates are highly liquid, are designated as held-for-trading and are recorded at their fair values. Face value represents the fair value due to the highly liquid nature of the investment certificates.

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**2. Significant Accounting Policies (Continued)**

(l) Financial Instruments

The Company classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities, in accordance with CICA Handbook Section 3855. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

The CICA Handbook Section 3862, Financial Instruments – Disclosures requires disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

The fair value of cash is based on level 1 inputs of the fair value hierarchy.

(m) Government Assistance

The Company adheres to CICA Handbook Section 3805 “Investment Tax Credits”. According to this standard, investment tax credits are accounted for using the cost reduction approach. This approach requires investment tax credits received or receivable to be deducted from capitalized resource expenditures. Investment tax credits are accrued when the Company has made the qualifying expenditures, provided there is reasonable assurance that the credits will be realized. Recognition is based on collection history.

(n) Comprehensive income

Comprehensive income is the change in the Company's shareholders' equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net earnings, such as unrealized gains and losses on available-for-sale investments. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other “comprehensive income” until it is considered appropriate to recognize into net earnings.

This standard requires the presentation of comprehensive income and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. The presentation of “accumulated other comprehensive loss” in the shareholders' equity section of the balance sheet is not required because the closing balance is \$Nil.

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**BITTERROOT RESOURCES LTD.**  
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**2. Significant Accounting Policies (Continued)**

(o) Comparative Figures

Certain comparative figures have been reclassified to confirm with the current year's presentation.

(p) Recent Accounting Pronouncements

(i) Business Combinations

In January 2009, the CICA issued Section 1582 – “Business Combinations” which replaces the existing standard. The section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. This standard is equivalent to the International Financial Reporting Standards (“IFRS”) on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management does not believe the adoption of this standard will have an impact on the Company's consolidated financial statements.

(ii) Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued Section 1601 – “Consolidated Financial Statements” and Section 1602 – “Non-Controlling Interests” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These standards further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interests in subsidiaries held by parties other than the parent. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2012 in connection with the conversion to IFRS.

(iii) International Financial Reporting Standards

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 November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 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.

**BITTERROOT RESOURCES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. Resource Properties**

	GK Property B.C., Canada	Mineral Creek Property B.C., Canada	North Brenda Property B.C., Canada	SPN Property B.C., Canada	Big Southeaster Property B.C., Canada	Michigan Lands Michigan, USA	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance - October 31, 2008</b>	2,914,185	3,510,367	1,824,266	526,376	1,877,850	3,234,388	13,887,432
Acquisition costs	-	390,648	50,286	9,000	50,000	-	499,934
Aircraft charter	-	16,659	-	-	-	-	16,659
Claims, leases and permits	14,617	5,064	10,784	11,142	5,567	29,835	77,009
Consulting and professional	8,381	208,414	56,061	3,290	225	255,014	531,385
Drilling	-	932,622	-	-	-	260,675	1,193,297
Field supplies	98	70,823	1,039	-	57	21,735	93,752
Fuel	-	11,019	-	-	-	9,900	20,919
Geochemistry	-	32,720	9,649	5,887	-	27,717	75,973
Geophysics	-	10,242	-	12,819	375	27,855	51,291
Ground transportation	60	22,345	2,054	-	50	15,127	39,636
Other	1,980	30,929	2,700	125	2,860	72,002	110,596
Recovery of costs	(417,276)	(61,999)	(332,506)	(130,312)	-	(676,244)	(1,618,337)
Room and board	-	28,395	701	-	78	21,080	50,254
Stock-based compensation	-	-	-	-	-	8,457	8,457
Travel and freight	-	12,743	58	60	-	11,172	24,033
Trenching	-	-	28,378	-	-	-	28,378
Expenditures during the year	(392,140)	1,710,624	(170,796)	(87,989)	59,212	84,325	1,203,236
<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
Acquisition costs	-	-	-	50,000	-	-	50,000
Aircraft charter	-	-	-	-	-	-	-
Claims, leases and permits	6,284	2,830	8,173	230	1,600	23,696	42,813
Consulting and professional	24,945	231,032	67,475	16,758	-	94,515	434,725
Drilling	-	117,572	-	-	-	-	117,572
Field supplies	574	21,148	183	33	-	2,548	24,486
Fuel	-	11,669	-	-	-	-	11,669
Geochemistry	8,957	17,932	29,673	1,236	-	-	57,798
Geophysics	-	41,696	68,914	-	-	56,076	166,686
Ground transportation	2,801	17,920	677	1,532	-	3,623	26,553
Other	4,863	8,280	2,123	330	2,381	17,296	35,273
Recovery of costs	-	(81,914)	-	-	-	(14,107)	(96,021)
Room and board	2,834	18,768	79	1,756	-	8,561	31,998
Stock-based compensation	3,204	9,104	3,204	3,204	-	10,323	29,039
Travel and freight	129	2,545	937	74	-	4,549	8,234
Trenching	-	-	14,072	-	-	-	14,072
Expenditures during the year	54,591	418,582	195,510	75,153	3,981	207,080	954,897
Write-off of resource properties	-	(450,460)	-	-	(1,941,043)	(150,194)	(2,541,697)
<b>Balance - October 31, 2010</b>	2,576,636	5,189,113	1,848,980	513,540	-	3,375,599	13,503,868

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**3. Resource Properties (Continued)**

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.

(ii) State Leases

The Company holds leases covering approximately 2,200 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 \$63,600 through February 28, 2015. Minimum rental payments due in the next five years are as follows:

	\$
2011	10,800
2012	13,200
2013	13,200
2014	13,200
2015	13,200
	<u>63,600</u>

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 costs incurred.

During the year ended October 31, 2010, the Company incurred exploration expenditures of \$221,187 (2009 - \$760,569) relating to the Michigan properties and received and/or accrued recoveries of \$14,107 (2009 - \$676,244) from Cameco Corporation. As of October 31, 2010, the Company decided costs related to the Cameco Lease Claims should be written off to operations with total write-offs of \$150,194, due to Cameco no longer planning to explore the property.

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**3. Resource Properties (Continued)**

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

The Company owns a 100% interest in the GK Property located east of the town of Beaverdell, British Columbia. The property is subject to a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2010, the Company incurred acquisition and exploration expenditures of \$54,591 (2009 - \$25,136) relating to the GK property and received and/or accrued British Columbia Mining Exploration Tax Credits ("BC METC") of \$nil (2009 - \$417,276).

(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 property is subject to a 3.5% net smelter returns royalty. In addition, the Company owns a 100% interest in four adjoining mineral claims.

During the year ended October 31, 2010, the Company incurred acquisition and exploration expenditures of \$500,496 (2009 - \$1,772,623) relating to the Mineral Creek property and received and/or accrued BC METC of \$nil (2009 - \$27,285) and received \$81,914 (2009 - \$34,714) from the sale of gold. As of October 31, 2010, the Company decided costs related to the bulk sampling should be written off to operations with total write-offs of \$450,460.

(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 property is subject to a 2% net smelter returns royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2010, the Company incurred acquisition and exploration expenditures of \$195,510 (2009 - \$161,710) relating to the North Brenda property and received and/or accrued BC METC of \$nil (2009 - \$332,506).

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

The Company owns 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 property is subject to a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2010, the Company incurred acquisition and exploration expenditures of \$75,153 (2009 - \$42,323) and received and/or accrued BC METC of \$nil (2009 - \$130,312).

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**3. Resource Properties (Continued)**

(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 property is subject to a 2% net smelter return royalty, of which the Company can purchase half by paying \$1,000,000.

During the year ended October 31, 2010, the Company incurred acquisition and exploration expenditures of \$3,981 (2009 - \$59,212). As at October 31, 2010, the Company decided not to pursue the Big Southeaster gold project and all related costs were written off to operations with total write-offs of \$1,941,043.

**4. Equipment**

	2010			2009		
	Accumulated	Net	Book Value	Accumulated	Net	Book Value
	Cost	Amortization		Cost	Amortization	
	\$	\$	\$	\$	\$	
Computer hardware	9,396	8,760	636	9,396	8,488	908
Field equipment	20,094	17,488	2,606	20,095	16,372	3,723
Furniture and fixtures	9,381	4,789	4,592	8,350	3,769	4,581
Leasehold improvements	10,646	5,967	4,679	5,655	5,421	234
	49,517	37,004	12,513	43,496	34,050	9,446

**5. Asset Retirement Obligation**

The Company's obligations with respect to asset retirement relate to reclamation of the Mineral Creek Property site on which project operations are situated. 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 9 years.

	2010	2009
	\$	\$
<b>Balance, Beginning of Year</b>	22,611	-
Liability incurred during year	-	20,555
Accretion expense	2,261	2,056
<b>Balance, End of Year</b>	24,872	22,611

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**6. Share Capital**

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value.

(b) Common Shares Issued

	Number Of Shares	Amount \$
<b>Balance - October 31, 2008</b>	58,594,955	18,467,531
Issued for cash		
Exercise of broker options	60,000	10,388
Pursuant to private placements	7,907,000	1,013,150
Resource property option payments	2,870,089	448,440
Share issue costs	-	(109,664)
Future income taxes on expenditures renounced to shareholders	-	(779,951)
<b>Balance - October 31, 2009</b>	69,432,044	19,049,894
Issued for cash		
Pursuant to private placements	5,901,666	708,200
Resource property option payment	434,783	50,000
Finders' fees	-	(30,000)
Share issue costs	-	(17,469)
Future income taxes on expenditures renounced to shareholders	-	(231,748)
<b>Balance - October 31, 2010</b>	75,768,493	19,528,877

**Flow through shares** - Of the shares issued during fiscal 2010, 5,901,666 were issued on a flow through basis whereby the Company must spend \$708,200 on Canadian exploration expenditures ("CEE") and renounce these expenditures to shareholders over two years. As of October 31, 2010, the Company has spent \$565,445 leaving a balance of \$142,755.

Of the shares issued during fiscal 2009, 7,907,000 were issued on a flow through basis whereby the Company was required to spend \$1,013,150 on CEE and renounce these expenditures to the shareholders over two years. All required expenditures and renunciations were made during fiscal 2009.

During the year ended October 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, 250,000 non-transferable broker warrants to purchase common shares at \$0.12, expiring December 10, 2011, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$17,469 and was recorded as a share issue cost.

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**6. Share Capital (Continued)**

(b) Common Shares Issued (Continued)

- (ii) On January 13, 2010, the Company issued 434,783 common shares in accordance with the SPN property option agreement. The fair value of the shares was \$50,000 and was capitalized to the resource properties as acquisition expenditures.

During the year ended October 31, 2009, the Company issued common shares pursuant to the following:

- (i) On November 4, 2008, the Company issued 1,080,000 flow-through common shares priced at \$0.12 per share, 64,800 non-transferable broker warrants to purchase common shares at \$0.12, expiring November 3, 2010, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$5,856 and was recorded as a share issue cost.
- (ii) On December 2, 2008, the Company issued 3,500,000 flow-through common shares priced at \$0.12 per share, 210,000 non-transferable broker warrants to purchase common shares at \$0.12, expiring December 3, 2010, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$14,122 and was recorded as a share issue cost.
- (iii) On December 17, 2008, the Company issued 2,040,000 flow-through common shares priced at \$0.12 per share, 120,000 non-transferable broker warrants to purchase common shares at \$0.12, expiring December 16, 2010, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$9,317 and was recorded as a share issue cost.
- (iv) On July 27, 2009, the Company issued 1,287,000 flow-through common shares priced at \$0.17 per share, 54,000 non-transferable broker warrants to purchase common shares at \$0.17, expiring July 26, 2010, were paid in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was \$4,558 and was recorded as a share issue cost.
- (v) On May 15, 2009, the Company issued 2,000,000 common shares to Mineral Creek Ventures Inc. to increase the Company's interest in the Mineral Creek property from 75 percent to 100 percent. The fair value of the shares was \$320,000 and was capitalized to the Mineral Creek property as an acquisition expenditure.
- (vi) Throughout the year the Company issued an additional 870,089 common shares to various vendors in accordance with the Company's resource property option agreements. The fair value of the shares was \$128,440 and was capitalized to the resource properties as acquisition expenditures.

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**6. Share Capital (Continued)**

(c) Warrants

Warrant transactions are summarized as follows:

	Number Of Warrants	Weighted Average Exercise Price
		\$
<b>Balance - October 31, 2008</b>	4,465,714	0.65
Broker warrants issued	448,800	0.13
Exercised	(60,000)	0.12
Expired	(4,225,714)	0.66
<b>Balance - October 31, 2009</b>	628,800	0.21
Broker warrants issued	250,000	0.12
Expired	(358,800)	0.28
<b>Balance - October 31, 2010</b>	520,000	0.12

The following share purchase warrants were outstanding at October 31, 2010:

Number Of Warrants	Exercise Price	Expiry Date
	\$	
210,000	0.12	December 3, 2010 (subsequently expired)
60,000	0.12	December 18, 2010 (subsequently expired)
250,000	0.12	December 10, 2011
520,000		

The following weighted average assumptions were used for the Black-Scholes valuation of broker warrants:

	2010	2009
Volatility	131%	122%
Risk-free interest rate	1.24%	1.55%
Dividend yield	-	-
Expected life	2.00 years	1.88 years

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**7. Contributed Surplus**

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

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Balance, Beginning Of Year</b>	2,891,573	2,641,647
Stock-based compensation	133,568	253,114
Stock options and broker warrants exercised	-	(3,188)
<b>Balance, End Of Year</b>	<b>3,025,141</b>	<b>2,891,573</b>

**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 is no less than 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:

	<b>Number Of Options</b>	<b>Weighted Average Exercise Price</b>
		\$
<b>Balance - October 31, 2008</b>	5,564,500	0.54
Options granted	1,990,000	0.15
Options expired	(1,310,000)	0.56
<b>Balance - October 31, 2009</b>	6,244,500	0.41
Options granted	2,675,000	0.11
Options expired	(500,000)	0.39
Options cancelled	(845,000)	0.50
<b>Balance - October 31, 2010</b>	<b>7,574,500</b>	<b>0.30</b>

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**8. Stock Option Plan and Stock-Based Compensation (Continued)**

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

Range Of Exercise Price	Options Outstanding			Weighted Average Exercise Price \$	Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life years			Vested Options	Weighted Average Exercise Price \$
0.00 – 0.24	4,590,000	4.10		0.13	4,080,000	0.12
0.25 – 0.49	1,049,500	2.16		0.35	1,049,500	0.35
0.50 – 0.74	1,390,000	0.86		0.62	1,390,000	0.62
0.75 – 0.99	545,000	2.43		0.80	545,000	0.80
	7,574,500	3.12		0.30	7,064,500	0.31

The weighted average fair value of each stock option granted during the year was \$0.05 (2009 - \$0.11), calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

	2010	2009
Expected stock price volatility	100%	103%
Risk-free interest rate	2.57%	2.46%
Expected dividend yield	-	-
Expected life of options	5 years	5 years

Total compensation expense recognized for stock options granted during the year was \$135,947 (2009 - \$221,199). Stock-based compensation of \$29,039 (2009 - \$8,456) was capitalized to resource properties for options granted to field consultants and \$87,060 (2009 - \$212,743) was expensed to operations for options granted to directors, officers, corporate consultants and employees of the Company. The Company also recorded a share issuance cost of \$17,469 (2009 - \$33,853) in respect of broker warrants issued, as described in Note 6(b).

**9. Supplemental Cash Flow Information**

	2010	2009
	\$	\$
Cash paid during the year for interest	-	-
Cash paid during the year for income taxes	-	-

Significant non-cash transactions during the year ended October 31, 2010 included:

- The Company issued 434,783 shares in respect of option payments for resource properties, with a fair value of \$50,000.

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**9. Supplemental Cash Flow Information (Continued)**

- b) The Company issued 250,000 broker warrants valued at \$17,469 as a finder's fee in connection with the 5,901,666 flow-through share private placement.
- c) Included in resource properties is \$120,930 which relates to accounts payable and accrued liabilities.
- d) Included in resource properties is \$29,039 which relates to stock based compensation.

Significant non-cash transactions during the year ended October 31, 2009 included:

- a.) The Company issued 2,870,089 shares in respect of option payments for resource properties, with a fair value of \$448,440.
- b.) The Company issued 448,800 broker warrants valued at \$33,853 as a finder's fee in connection with the private placements during the year.
- c.) Included in resource properties is \$92,204 which relates to accounts payable and accrued liabilities.
- d.) Included in resource properties is \$475,805 which relates to an accrual in accounts receivable - other.
- e.) Included in resource properties is \$8,457 which relates to stock based compensation.
- f.) Included in resource properties is \$20,555 which relates to the asset retirement obligation.
- g.) The Company allocated \$3,188 for stock options and broker warrants exercised during the year to share capital from contributed surplus.

**10. Related Party Transactions**

The following is a summary of related party transactions and balances for the years ended October 31, 2010 and 2009, not disclosed elsewhere in the financial statements:

- (a) Management fees of \$96,000 (2009 - \$96,000) 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.
- (b) Accounts payable at October 31, 2010 includes \$1,729 (2009 - \$nil) due to a company controlled by a director in common.
- (c) Stock-based compensation includes stock options granted to directors recorded at a fair value of \$68,188 (2009 - \$184,981).

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**11. Income Taxes**

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	<b>2010</b>	<b>2009</b>
Canadian statutory income tax rate	28.75%	30%
	<b>\$</b>	<b>\$</b>
Income tax recovery at statutory rate	867,437	175,400
Non-deductible items and timing differences for tax purposes:		
Stock-based compensation expense	(25,030)	(63,823)
Resource properties	(730,738)	307,276
Accretion expense	(650)	(617)
Expiry of losses	(32,670)	(31,083)
Share issuance costs	36,448	23,325
Rate change from prior year to current year	6,375	(56,314)
Other	(3,606)	-
Difference between current and future rate	34,917	70,957
Unrecognized benefit of non-capital losses	(142,223)	-
<b>Income Tax recovery</b>	<b>10,260</b>	<b>425,121</b>

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at October 31, 2010 and 2009 are presented below:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Net operating loss carry-forwards	1,378,729	549,329
Capital loss carry-forwards	30,678	30,678
Resource properties	(2,821,504)	(1,801,570)
Equipment	10,478	9,739
Share issuance costs	34,552	66,245
<b>Net future income tax liability</b>	<b>(1,367,067)</b>	<b>(1,145,579)</b>

The Company has approximately \$2,564,000 of losses for Canadian income tax purposes which may be used to reduce income taxes of future years and will expire as follows:

	<b>\$</b>
2014	179,000
2015	242,000
2026	273,000
2027	414,000
2028	440,000
2029	506,000
2030	510,000
	<b>2,564,000</b>

The Company has non-capital losses for U.S.A. income tax purposes of approximately \$2,107,000 which can be carried forward to reduce taxable income up until 2030.

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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 geographic locations are as follows:

	2010	2009
	\$	\$
Canada	10,128,269	11,781,401
U.S.A.	3,375,599	3,318,713
	<u>13,503,868</u>	<u>15,100,114</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 investments, 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:

	2010	2009
	\$	\$
Held for trading (i)	585,399	758,215
Loans and receivables (ii)	118,137	525,772
Other financial liabilities (iii)	182,103	182,435

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

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

**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.

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**14. Management of Capital (Continued)**

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) 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 and cash equivalents 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 and cash equivalents consist of cash deposited in business accounts and redeemable guaranteed investment certificates held by high credit quality financial institutions. The Company is not invested in any asset backed commercial paper.

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**15. Financial Instruments Risk Exposure and Management (Continued)**

(b) 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 cash and cash equivalents, receivables and reclamation deposits. The Company limits exposure to credit risk by maintaining its cash and cash equivalents and reclamation deposits with high-credit quality financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The receivables balance consists of amounts owed from Cameco for reimbursement of mineral exploration expenditures, government investment tax credits, GST recoverable and interest receivable. There is ongoing review to evaluate the credit worthiness of these counterparties. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents, receivables and reclamation deposits.

(c) 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. A strengthening (weakening) of the Canadian dollar against the US dollar of 10% would not have a significant effect on net loss.

(d) 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. Commitments**

- (a) The Company is required to make certain cash payments and to issue shares to maintain its resource properties, as described in Note 3.
- (b) The Company has entered into an office lease expiring March 31, 2015 which calls for monthly payments of approximately \$1,528 in year one; \$1,584 in year two; \$1,641 in year three; \$1,698 in year four; and \$1,754 in year five, plus an applicable portion of operating costs.

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### 16. Commitments (Continued)

Minimum annual lease payments, not including operating costs, pursuant to the lease agreement are as follows:

2011	\$	18,729
2012		19,408
2013		20,087
2014		20,766
2015		<u>8,770</u>
	\$	<u>87,760</u>

### 17. Subsequent Events

- (a) On November 29, 2010, the Company issued 7,000,000 flow-through common shares priced at \$0.11 per share for gross proceeds of \$770,000, 329,454 non-transferable broker warrants to purchase common shares of the Company at \$0.11 per share, expiring November 24, 2012, were issued in conjunction with the private placement.
- (b) On January 12, 2011, the Company entered into a resource property lease agreement covering certain properties in Michigan, U.S.A. The Company has agreed to pay rental and advance royalty payments totalling \$1,534,200 over a period of 20 years.
- (c) On January 14, 2011, the Company granted 750,000 stock options to directors, officers and consultants which are exercisable at \$0.12 per share until January 13, 2016.