BITTERROOT RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bitterroot Resources Ltd.

We have audited the accompanying consolidated financial statements of Bitterroot Resources Ltd. which comprise the consolidated balance sheets as at October 31, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Bitterroot Resources Ltd. as at October 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Bitterroot Resources Ltd.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

February 23, 2012

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

	2011	2010
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	772,964	585,399
Accounts receivable	35,919	118,137
Prepaid expenses	5,128	9,428
	814,011	712,964
Reclamation Deposit	23,300	23,300
Resource Properties (Note 3)	11,296,750	13,503,868
Equipment (Note 4)	9,686	12,513
	12,143,747	14,252,645
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	297,912	182,103
Asset Retirement Obligation (Note 5)	27,359	24,872
Future Income Taxes (Note 11)	848,000	1,367,067
	1,173,271	1,574,042
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	21,049,669	19,528,877
Contributed Surplus (Note 7)	3,217,514	3,025,141
Deficit	(13,296,707)	(9,875,415)
	10,970,476	12,678,603
	12,143,747	14,252,645

Continuing Operations (Note 1)
Commitments (Note 16)
Subsequent Event (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 AND DEFICIT
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED OCTOBER 31

	2011	2010
	$	$
Expenses		
Accretion	2,487	2,261
Amortization	2,827	2,954
Foreign exchange loss	5,249	3,966
Interest and bank charges	2,663	1,980
Management fees (Note 10)	96,000	96,000
Office and printing	186,999	123,373
Professional fees	74,038	73,048
Property investigation	51,154	57,513
Regulatory fees	8,405	7,478
Shareholder information	16,172	11,319
Stock-based compensation (Note 8)	111,646	87,060
Transfer agent fees	14,383	15,160
Loss Before Other Items and Income Taxes	(572,023)	(482,112)
Other Items		
Interest income	657	6,637
Write-off of resource properties (Note 3)	(3,531,493)	(2,541,697)
	(3,530,836)	(2,535,060)
Loss Before Income Taxes	(4,102,859)	(3,017,172)
Future income tax recovery (Note 11)	681,567	10,260
Net Loss and Comprehensive Loss for the Year	(3,421,292)	(3,006,912)
Deficit, beginning of year	(9,875,415)	(6,868,503)
Deficit, End Of Year	(13,296,707)	(9,875,415)
Basic And Diluted Loss Per Share	(0.04)	(0.04)
Weighted Average Number Of Common Shares Outstanding	83,261,154	75,033,587

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

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

	2011	2010
	$	$
Cash Flows from Operating Activities		
Loss for the year	(3,421,292)	(3,006,912)
Items not involving cash:		
Amortization	2,827	2,954
Accretion	2,487	2,261
Write-off of resource properties	3,531,493	2,541,697
Future income tax recovery	(681,567)	(10,260)
Stock-based compensation	111,646	87,060
Changes in non-cash working capital:		
Accounts receivable	14,981	34,943
Prepaid expenses	4,300	14,260
Accounts payable and accrued liabilities	83,716	(29,058)
Cash used in operating activities	(351,409)	(363,055)
Cash Flows from Financing Activities		
Capital stock issued	1,861,950	708,200
Share issuance costs	(121,347)	(30,000)
Cash received from financing activities	1,740,603	678,200
Cash Flows from Investing Activities		
Reclamation deposits	-	(7,500)
Purchase of equipment	-	(6,021)
Resource property expenditures	(1,248,180)	(943,153)
Recoveries of resource property expenditures	46,551	468,713
Cash used in investing activities	(1,201,629)	(487,961)
Increase (Decrease) in Cash and Cash Equivalents During the Year	187,565	(172,816)
Cash and cash equivalents, beginning of year	585,399	758,215
Cash and Cash Equivalents, End of Year	772,964	585,399

Cash and Cash Equivalents Consist of:		
Bank deposits	772,964	373,299
Guaranteed investment certificate	-	212,100
	772,964	585,399

Supplemental Cash Flow Information (Note 9)

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

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, 2011, 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 $3,421,292 for the year ended October 31, 2011 (2010 - $3,006,912), and had a deficit of $13,296,707 at October 31, 2011 (2010 - $9,875,415) 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 significant 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.

(Expressed in Canadian Dollars)

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%

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.

2. Significant Accounting Policies (Continued)

(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 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.

(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.

2. Significant Accounting Policies (Continued)

(i) Flow-Through Shares

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.

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.

(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 and deficit. 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, 2011 and 2010 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 three 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.

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. 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 and cash equivalents 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. Certain gains and losses that would otherwise be recorded as part of net earnings are presented in other “comprehensive income” until it is considered appropriate to recognize into net earnings.

2. Significant Accounting Policies (Continued)

(o) New Accounting Standards

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, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011.

(Expressed in Canadian Dollars)

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	Windy Property Nunavut, Canada	Michigan Lands Michigan, USA	Total
	$	$	$	$	$	$	$	$
Balance - October 31, 2009	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
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)
Balance - October 31, 2010	2,576,636	5,189,113	1,848,980	513,540	-	-	3,375,599	13,503,868
Claims, leases and permits	1,125	2,204	1,125	1,125	-	128,827	28,808	163,214
Consulting and professional	117,907	63,142	71,529	1,644	-	5,735	102,154	362,111
Drilling	219,505	-	-	-	-	-	-	219,505
Field supplies	-	4,994	-	-	-	-	2,048	7,042
Fuel	-	1,193	-	-	-	-	102	1,295
Geochemistry	41,758	(2,253)	41,452	172	-	-	10,386	91,515
Geophysics	-	144,109	3,841	11,142	-	-	63,284	222,376
Ground transportation	727	2,076	-	-	-	-	2,622	5,425
Other	9,807	7,121	-	-	-	24	42,275	59,227
Recovery of costs	-	(45,563)	-	-	-	-	(988)	(46,551)
Room and board	339	2,127	-	-	-	-	3,024	5,490
Stock-based compensation	18,362	-	-	-	-	-	5,054	23,416
Travel and freight	443	3,106	3,926	41	-	-	7,949	15,465
Trenching	17,220	-	-	-	-	-	-	17,220
Reversal of investment tax credit	-	177,625	-	-	-	-	-	177,625
Expenditures during the year	427,193	359,881	121,873	14,124	-	134,586	266,718	1,324,375
Write-off of resource properties	(3,003,829)	-	-	(527,664)	-	-	-	(3,531,493)
Balance - October 31, 2011	-	5,548,994	1,970,853	-	-	134,586	3,642,317	11,296,750

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 certain mineral rights in the Upper Peninsula of Michigan, U.S.A. On certain mineral rights 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) Federal and State Leases

During the year ended October 31, 2011, the Company had been granted prospecting permits covering certain federal mineral rights in Michigan. In the event of a discovery, these lands will be subject to a net smelter returns royalty, the terms of which are negotiated on a case-by-case basis.

The Company held state leases covering certain 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 through February 28, 2014.

During the year ended October 31, 2011, the Company decided to release the state leases. As of October 31, 2010, the Company already wrote off all the costs related to the state leases for the total of $150,194 and therefore no further write-off is required for the year ended October 31, 2011.

(iii) Private Leases

The Company holds private mineral leases covering approximately 1,240 acres in Michigan, U.S.A. In order to maintain the leases in good standing the Company must make aggregate rental payments of US$409,200 through January 12, 2020, and aggregate advance royalty payments of US$1,125,000 from January 12, 2021 through 2030. The vendor retains a sliding scale net smelter returns royalty indexed to the price of copper. The Company is required to pay US$18,600 in fiscal 2012 (subsequently paid).

3. Resource Properties (Continued)

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

During the year ended October 31, 2011, the Company incurred exploration expenditures of $267,706 (2010 - $221,187) relating to the Michigan properties and received recoveries of $988 (2010 - $14,107)

(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 vendors retain a 2% net smelter returns royalty, of which the Company can purchase half by paying $1,000,000.

During the year ended October 31, 2011, the Company incurred exploration expenditures of $427,193 (2010 - $54,591) relating to the GK Property and the Company decided to abandon the GK Property and accordingly wrote off $3,003,829 of costs related 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 project area is subject to a 3.5% net smelter returns royalty.

During the year ended October 31, 2011, the Company incurred exploration expenditures of $405,444 (2010 - $500,496) relating to the Mineral Creek property and received $45,563 (2010 - $81,914) from the sale of dore. As of October 31, 2010, $450,460 of costs related to the bulk sampling was written off.

(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 year ended October 31, 2011, the Company incurred acquisition and exploration expenditures of $121,873 (2010 - $195,510) relating to the North Brenda property.

(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. The vendor retains a 2% net smelter return royalty, of which the Company can purchase half by paying $1,000,000.

During the year ended October 31, 2011, the Company incurred acquisition and exploration expenditures of $14,124 (2010 - $75,153) and the Company decided to abandon the SPN property and accordingly, wrote off $527,664 of costs related to the SPN Property.

(Expressed in Canadian Dollars)

3. Resource Properties (Continued)

(f) Windy Property, Nunavut Canada

The Company has staked certain mineral claims forming the Windy Property in southern Nunavut.

During the year ended October 31, 2011, the Company incurred acquisition and exploration expenditures of $134,586 (2010 - $nil) relating to the Windy Property.

4. Equipment

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Computer hardware	9,396	8,951	445	9,396	8,760	636
Field equipment	20,094	18,270	1,824	20,094	17,488	2,606
Furniture and fixtures	9,381	5,707	3,674	9,381	4,789	4,592
Leasehold improvements	10,646	6,903	3,743	10,646	5,967	4,679
	49,517	39,831	9,686	49,517	37,004	12,513

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 8 years.

	2011	2010
	$	$
Balance, Beginning of Year	24,872	22,611
Accretion expense	2,487	2,261
Balance, End of Year	27,359	24,872

(Expressed in Canadian Dollars)

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
		$
Balance - October 31, 2009	69,432,044	19,049,894
Issued for cash		
Pursuant to private placements	5,901,666	708,200
Resource property option payments	434,783	50,000
Finders' fees	-	(30,000)
Share issue costs	-	(17,469)
Future income taxes on expenditures renounced to shareholders	-	(231,748)
Balance - October 31, 2010	75,768,493	19,528,877
Issued for cash		
Exercise of stock options	10,000	1,932
Pursuant to private placements	26,957,220	1,837,528
Share issue costs, net of tax	-	(126,168)
Future income taxes on expenditures renounced to shareholders	-	(192,500)
Balance - October 31, 2011	102,735,713	21,049,669

Flow through shares - Of the shares issued during fiscal 2011, 7,000,000 were issued on a flow through basis whereby the Company must spend $770,000 on Canadian exploration expenditures ("CEE") and renounce these expenditures to shareholders over two years. As of October 31, 2011, the company had spent $604,000 leaving a balance of approximately $166,000.

6. Share Capital (Continued)

(b) Common Shares Issued (Continued)

During the year ended October 31, 2011, the Company issued common shares pursuant to the following:

(i) On November 25, 2010, the Company issued 7,000,000 flow-through common shares priced at $0.11 per share for gross proceeds of $770,000. In connection with this private placement, the Company paid a finder's fee of $36,240 and issued 329,454 broker's warrants which are exercisable into common shares at $0.11 per share expiring November 25, 2012. The fair value of the broker warrants under the Black-Scholes pricing model was $17,164 and was recorded as share issue costs.

(ii) On March 10, 2011, 10,000 stock options were exercised at $0.12 per option for gross proceeds of $1,200. Accordingly $732 was transferred from contributed surplus to capital stock.

(iii) On June 24, 2011, the Company issued 2,322,220 units priced at $0.09 per unit for gross proceeds of $209,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each full warrant is exercisable at $0.15 until June 24, 2013. The fair value of the warrants of $23,222 was allocated to contributed surplus. In connection with this private placement, the Company paid a finder's fee of $10,000 and issued 100,000 broker warrants to purchase shares at $0.15 per share expiring June 24, 2013. The fair value of the broker warrants under the Black-Scholes pricing model was $2,535 and was recorded as share issue costs.

(iv) On October 27, 2011, the Company issued 17,635,000 units priced at $0.05 per unit for gross proceeds of $881,750. Each unit consists of one common share and one common share purchase warrant. Each full warrant is exercisable at $0.10 until October 27, 2013. The warrants are subject to an accelerated exercise provision in the event the closing price of the Company's shares exceeds $0.30 per share for any 20 consecutive trading days. The fair value of the warrants of $nil was allocated to contributed surplus. 908,100 broker warrants to purchase shares at $0.10 expiring October 27, 2013 were issued in conjunction with the private placement. The fair value of the broker warrants under the Black-Scholes model was $15,121 and was recorded as a share issue cost. The Company also paid $45,405 in finders' fees in conjunction with this private placement.

During the year ended October 31, 2010, the Company issued common shares pursuant to the following:

(i) On December 3, 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.

(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.

(Expressed in Canadian Dollars)

6. Share Capital (Continued)

(c) Warrants

Warrant transactions are summarized as follows:

	Number Of Warrants	Weighted Average Exercise Price
		$
Balance - October 31, 2009	628,800	0.21
Broker warrants	250,000	0.12
Expired	(358,800)	0.28
Balance - October 31, 2010	520,000	0.12
Issued	18,796,110	0.10
Broker warrants	1,337,554	0.11
Expired	(270,000)	0.12
Balance - October 31, 2011	20,383,664	0.10

The following share purchase warrants were outstanding at October 31, 2011:

Number of Warrants	Exercise Price	Expiry Date
	$	
250,000	0.12	December 10, 2011 (subsequently expired)
329,454	0.11	November 25, 2012
1,261,110	0.15	June 24, 2013
18,543,100	0.10	October 27, 2013
20,383,664		

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

	2011	2010
Volatility	104%	131%
Risk-free interest rate	2.28%	1.24%
Dividend yield	-	-
Expected life	2.00 years	2.00 years

(Expressed in Canadian Dollars)

7. Contributed Surplus

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

	2011	2010
	$	$
Balance, Beginning Of Year	3,025,141	2,891,573
Fair value of warrants	23,222	-
Stock-based compensation	169,883	133,568
Stock options and broker warrants exercised	(732)	-
Balance, End Of Year	3,217,514	3,025,141

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 Of Options	Weighted Average Exercise Price
		$
Balance - October 31, 2009	6,244,500	0.41
Options granted	2,675,000	0.11
Options expired	(500,000)	0.39
Options cancelled	(845,000)	0.50
Balance - October 31, 2010	7,574,500	0.30
Options granted	1,405,000	0.12
Options exercised	(10,000)	0.12
Options expired	(615,000)	0.53
Options cancelled	(1,530,000)	0.21
Balance - October 31, 2011	6,824,500	0.26

(Expressed in Canadian Dollars)

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

The following stock options were outstanding and exercisable at October 31, 2011:

Range Of Exercise Prices $	Options Outstanding and Exercisable	Weighted Average Remaining Contractual Life *years*	Weighted Average Exercise Price $
0.00 – 0.24	4,790,000	3.36	0.13
0.25 – 0.49	864,500	1.08	0.35
0.50 – 0.74	755,000	0.20	0.70
0.75 – 0.99	415,000	1.65	0.76
	6,824,500	2.62	0.27

The weighted average fair value of each stock option granted during the year was $0.10 (2010 - $0.05), calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

	2011	2010
Expected stock price volatility	104%	100%
Risk-free interest rate	2.57%	2.57%
Expected dividend yield	-	-
Expected life of options	5 years	5 years

Total compensation expense recognized for stock options granted during the year was $135,062 (2010 - $135,947). Stock-based compensation of $23,416 (2010 - $29,039) was capitalized to resource properties for options granted to field consultants and $111,646 (2010 - $87,060) 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 $34,821 (2010 - $17,469) in respect of broker warrants issued, as described in Note 6(b).

9. Supplemental Cash Flow Information

	2011 $	2010 $
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, 2011 included:

(a) The Company issued 1,337,554 broker warrants valued at $34,821 as a share issue cost in connection with the private placements during the year.

(b) Included in resource properties is $153,023 which relates to accounts payable and accrued liabilities.

(c) Included in resource properties is $23,416 which relates to stock based compensation.

9. Supplemental Cash Flow Information (Continued)

(d) Included in resource properties is a reclassification of a tax credit of $67,237 from accounts receivable to resource properties.

(e) The Company allocated $732 for stock options and broker warrants exercised during the year to share capital from contributed surplus.

(f) Included in share capital is a future income taxes on exploration expenditures renounced to shareholders of $192,500 and future income tax effect on share issue costs of $30,000.

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

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

(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 resources properties is $29,039 which relates to stock based compensation.

10. Related Party Transactions

The following is a summary of related party transactions and balances for the years ended October 31, 2011 and 2010, not disclosed elsewhere in the financial statements:

(a) Management fees of $96,000 (2010 - $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, 2011 includes $756 (2010 - $1,729) due to a company controlled by a director in common. The amounts owing are unsecured, non-interest bearing and with no stated payment date.

(c) Stock-based compensation includes stock options granted to directors recorded at a fair value of $107,054 (2010 - $68,188).

(Expressed in Canadian Dollars)

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:

	2011	2010
Canadian statutory income tax rate	26.83%	28.75%
	$	$
Income tax recovery at statutory rate	1,100,934	867,437
Non-deductible items and timing differences for tax purposes:		
Permanent differences	(1,009,338)	(756,418)
Expiry of losses	-	(32,670)
Share issuance costs	30,427	36,448
Rate change from prior year to current year	10,883	6,375
Other	-	(3,606)
Difference between current and future rate	42,126	34,917
Unrecognized benefit of non-capital losses	506,535	(142,223)
Income Tax recovery	681,567	10,260

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at October 31, 2011 and 2010 are presented below:

	2011	2010
	$	$
Net operating loss carry-forwards	1,580,000	1,378,729
Capital loss carry-forwards	-	30,678
Resource properties	(2,482,000)	(2,821,504)
Equipment	11,000	10,478
Share issuance costs	43,000	34,552
Net future income tax liability	(848,000)	(1,367,067)

The Company has approximately $3,133,000 of losses for Canadian income tax purposes which may be used to reduce income taxes of future years and will expire as follows:

	$
2014	179,000
2015	242,000
2026	273,000
2027	414,000
2028	441,000
2029	506,000
2030	510,000
2031	568,000
	3,133,000

The Company has non-capital losses for U.S.A. income tax purposes of approximately $2,344,000 which can be carried forward to reduce taxable income up until 2031.

(Expressed in Canadian Dollars)

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 equipment is in Canada. The Company's resource properties in geographic locations are as follows:

	2011	2010
	$	$
Canada	7,654,433	10,128,269
U.S.A.	3,642,317	3,375,599
	11,296,750	13,503,868

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:

	2011	2010
	$	$
Held for trading (i)	772,964	585,399
Loans and receivables (ii)	35,919	118,137
Other financial liabilities (iii)	297,912	182,103

(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.

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, interest rate risk and price 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 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.

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 mainly consists of government investment tax credits and GST/HST recoverable. 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.

(e) *Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in Canadian Dollars)

16. Commitments

(a) The Company is required to make certain cash payments 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.

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

	$
2012	19,408
2013	20,087
2014	20,766
2015	8,770
	69,031

17. Subsequent Event

The Company granted 2,310,000 stock options at $0.10 per option expiring January 17, 2017.