
BITTERROOT RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2012 and 2011
(Expressed in Canadian Dollars)

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 statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years ended October 31, 2012 and October 31, 2011, 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 International Financial Reporting Standards, 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 consolidated 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, 2012, October 31, 2011 and November 1, 2010 and its financial performance and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 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 12, 2013

BITTERROOT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	October 31, 2012	October 31, 2011 (Note 17)	November 1, 2010 (Note 17)
ASSETS				
Current assets				
Cash		\$ 1,040,280	\$ 772,964	\$ 585,399
Prepaid expenses		7,063	5,128	9,428
Receivables	4	14,901	35,919	118,137
Total current assets		1,062,244	814,011	712,964
Non-current assets				
Reclamation deposit		23,300	23,300	23,300
Equipment	6	6,245	9,686	12,513
Exploration and evaluation assets	5	6,336,888	11,296,750	13,503,868
Total non-current assets		6,366,433	11,329,736	13,539,681
TOTAL ASSETS		\$ 7,428,677	\$ 12,143,747	\$ 14,252,645
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	7	\$ 105,620	\$ 297,912	\$ 182,103
Flow-through share premium liability	10	-	15,399	5,901
Total current liabilities		105,620	313,311	188,004
Non-current liabilities				
Decommissioning and restoration provision	8	-	27,359	24,872
Deferred tax liability	16	-	848,000	1,367,067
Total non-current liabilities		-	875,359	1,391,939
Total liabilities		105,620	1,188,670	1,579,943
SHAREHOLDERS' EQUITY				
Share capital	9	21,887,541	21,374,409	19,731,117
Equity reserves	9	3,562,525	3,217,514	3,025,141
Deficit		(18,127,009)	(13,636,846)	(10,083,556)
Total shareholders' equity		7,323,057	10,955,077	12,672,702
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 7,428,677	\$ 12,143,747	\$ 14,252,645

Nature and continuance of operations (Note 1)

Commitments (Note 15)

Subsequent events (Note 18)

Approved by the Board of Directors on February 12, 2013:

"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 LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED OCTOBER 31
(Expressed in Canadian Dollars)

	Note	2012	2011
			(Note 17)
GENERAL AND ADMINISTRATIVE EXPENSES			
Accretion	8	\$ 1,368	\$ 2,487
Depreciation	6	2,164	2,827
Foreign exchange loss		1,535	5,249
Interest and bank charges		1,749	2,663
Management fees	12	96,000	96,000
Office and printing		83,450	186,999
Professional fees		92,166	74,038
Property investigation		-	51,154
Regulatory fees		10,876	8,405
Shareholder information		12,328	16,172
Share-based payments	9 & 12	261,851	111,646
Transfer agent fees		13,210	14,383
Operating expenses		(576,697)	(572,023)
Interest income		9,089	657
Other income on settlement of flow-through share premium liability	10	15,399	60,502
Loss on sale of exploration and evaluation assets	5, 6 & 8	(4,651,690)	-
Write-off of exploration and evaluation assets	5	-	(3,531,493)
Flow-through share expense		(134,264)	-
		(4,761,466)	(3,470,334)
Loss before income taxes		(5,338,163)	(4,042,357)
Deferred tax recovery		848,000	489,067
Loss and comprehensive loss for the year		\$ (4,490,163)	\$ (3,553,290)
Basic and diluted loss per share		\$ (0.04)	\$ (0.04)
Weighted average number of common shares outstanding		107,991,129	83,261,154

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

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

	2012	2011
Cash flows from operating activities		
Loss and comprehensive loss for the year	\$ (4,490,163)	\$ (3,553,290)
Items not involving cash:		
Accretion	1,368	2,487
Deferred tax recovery	(848,000)	(489,067)
Depreciation	2,164	2,827
Flow-through share expense	134,264	-
Interest income	(2,890)	-
Loss on sale of exploration and evaluation assets	4,651,690	-
Other income on settlement of flow-through share premium liability	(15,399)	(60,502)
Share-based payments	261,851	111,646
Write-off of exploration and evaluation assets	-	3,531,493
Changes in non-cash working capital:		
Receivables	21,018	14,981
Prepaid expenses	(1,935)	4,300
Accounts payable and accrued liabilities	(228,610)	83,716
Cash used in operating activities	(514,642)	(351,409)
Cash flows from financing activities		
Private placements	500,000	1,860,750
Warrants exercised	123,806	-
Options exercised	-	1,200
Share issue costs	(30,000)	(121,347)
Cash provided by financing activities	593,806	1,740,603
Cash flows from investing activities		
Interest income	2,890	-
Exploration and evaluation assets expenditures	(814,738)	(1,248,180)
Proceeds from sale of exploration and evaluation assets	1,000,000	-
Recoveries of exploration and evaluation assets expenditures	-	46,551
Cash provided by (used in) investing activities	188,152	(1,201,629)
Increase in cash during the year	267,316	187,565
Cash, beginning of year	772,964	585,399
Cash, end of year	\$ 1,040,280	\$ 772,964

Supplemental disclosure with respect to cash flows (Note 11)

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

BITTERROOT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED OCTOBER 31
(Expressed in Canadian Dollars)

	Number of shares	Share Capital	Equity reserves	Deficit	Total
Balance - November 1, 2010 (Note 17)	75,768,493	\$ 19,731,117	\$ 3,025,141	\$ (10,083,556)	\$ 12,672,702
Private placement	26,957,220	1,800,750	-	-	1,800,750
Options exercised	10,000	1,932	(732)	-	1,200
Share issue costs	-	(34,523)	-	-	(34,523)
Finders' fees	-	(101,645)	-	-	(101,645)
Fair value of warrants	-	(23,222)	23,222	-	-
Share-based payments	-	-	169,883	-	169,883
Loss and comprehensive loss for the year	-	-	-	(3,553,290)	(3,553,290)
Balance - October 31, 2011 (Note 17)	102,735,713	21,374,409	3,217,514	(13,636,846)	10,955,077
Private placement	10,000,000	500,000	-	-	500,000
Warrants exercised	1,205,114	147,226	(23,420)	-	123,806
Share issue costs	-	(4,094)	4,094	-	-
Finder's fees	-	(30,000)	-	-	(30,000)
Fair value of warrants	-	(100,000)	100,000	-	-
Share-based payments	-	-	264,337	-	264,337
Loss and comprehensive loss for the year	-	-	-	(4,490,163)	(4,490,163)
Balance - October 31, 2012	113,940,827	\$21,887,541	\$ 3,562,525	\$ (18,127,009)	\$ 7,323,057

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

BITTERROOT RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011
(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Bitterroot Resources Ltd. (the "Company") is in the exploration stage and its principal business activity is the sourcing and exploration of resource properties.

The Company was incorporated on March 13, 1951 under the Laws of British Columbia. The Company's head office and registered office address is Suite 206-B – 1571 Bellevue Street, West Vancouver, BC, V7V 1A6, Canada. The Company is listed on the TSX Venture Exchange under the symbol "BTT".

The consolidated financial statements of the Company are presented in Canadian dollars unless otherwise indicated, which is the functional currency.

2. BASIS OF PREPARATION

Statement of compliance and basis of measurement

These audited consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of October 31, 2012.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They have also been applied in preparing an opening IFRS statement of financial position at November 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 17.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the year. Actual results could differ from these estimates.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

BITTERROOT RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION (cont'd)

Use of estimates and judgments (cont'd)

Share-based payments

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recorded any deferred tax assets.

Exploration and evaluation assets

Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company and its subsidiaries is the Canadian dollar.

Going concern of operations

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends on its ability to raise adequate financing and to develop profitable operations.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

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2. BASIS OF PREPARATION (cont'd)

Going concern of operations (cont'd)

As the Company is in the exploration and evaluation stage, the Company has not identified a known body of commercial grade mineral on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues. The Company expects to incur further losses in the development of its business. These circumstances comprise a material uncertainty which may cast substantial doubt on the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Trans Superior Resources, Inc. and Voyageur Lands Corporation, both of which are holding companies incorporated in Michigan, USA. All significant inter-company balances and transactions have been eliminated upon consolidation.

Exploration and evaluation assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equipment

Equipment is recorded at cost, including betterment and renewals subsequent to acquisition, less accumulated depreciation. When equipment is sold or abandoned, the recorded costs and related accumulated depreciation 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.

Depreciation 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%

Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

Earnings/loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based payments

The Company has a plan for granting stock options to directors, employees and consultants as described in Note 9. The fair value of stock options granted to employees is recognized as share-based payments over the vesting period and credited to equity reserve. 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 share-based payments from the date of grant to the reporting date and credited to equity reserves. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to equity reserves are recorded as share capital. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement, the Warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are assigned a value based on the residual value method and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

Decommissioning and restoration provision

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate and the liability is recognized at the time environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows, based on engineering and environmental reports prepared by third party industry specialists, discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgements and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Cost of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of mine.

Cash

Cash includes 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. Face value represents the fair value due to the highly liquid nature of the investment certificates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held-to-maturity ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

Available for sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company has classified its financial assets as follows:

- Cash is classified as FVTPL.
- Receivables are classified as loans and receivables.
- Reclamation deposits are classified as held-to-maturity.

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss;
- Other financial liabilities.

Fair value through profit or loss

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Other financial liabilities

These liabilities are initially recognized at fair value less directly attributable costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company classified its financial liabilities which consisted of accounts payable and accrued liabilities as other financial liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Government assistance

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.

Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Accounting standards issued but not yet applied

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purposes Entities*. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Accounting standards issued but not yet applied (cont'd)

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Accounting Standards Issued and Effective January 1, 2014

IAS 32, "Financial Instruments: Presentation" clarifies certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

Accounting Standards Issued and Effective January 1, 2015

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

4. RECEIVABLES

	October 31, 2012	October 31, 2011	November 1 2010
Accounts receivable	\$ -	\$ 40	\$ 68,445
HST receivable	14,901	35,879	49,692
	<u>\$ 14,901</u>	<u>\$ 35,919</u>	<u>\$ 118,137</u>

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5. EXPLORATION AND EVALUATION ASSETS

	GK Mineral Creek Property B.C., Canada	Mineral Creek Property B.C., Canada	North Brenda Property B.C., Canada	SPN Property B.C., Canada	Windy Property Nunavut, Canada	Michigan Lands Michigan, USA	Total
Balance - November 1, 2010	\$2,576,636	\$ 5,189,113	\$ 1,848,980	\$ 513,540	\$ -	\$ -	\$ 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
Share-based payments	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 exploration and evaluation assets	(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
Claims, leases and permits	-	342	4,539	-	2,480	21,911	29,272
Consulting and professional	-	40,844	48,252	-	22,540	92,825	204,461
Field supplies	-	1,130	-	-	-	621	1,751
Finder's fee	-	50,000	-	-	-	-	50,000
Fuel	-	-	-	-	-	149	149
Geochemistry	-	(299)	7,854	-	-	285	7,840
Geophysics	-	-	-	-	194,069	171,220	365,289
Ground transportation	-	722	3,235	-	139	2,417	6,513
Other	-	34,039	255	-	16	8,326	42,636
Room and board	-	691	1,601	-	197	1,647	4,136
Share-based payments	-	1,243	-	-	1,243	-	2,486
Travel and freight	-	1,435	103	-	1,138	2,070	4,746
Expenditures during the year	-	130,147	65,839	-	221,822	301,471	719,279
Proceeds from sale of exploration and evaluation assets	-	(1,000,000)	-	-	-	-	(1,000,000)
Loss on sale of exploration and evaluation assets	-	(4,679,141)	-	-	-	-	(4,679,141)
Balance - October 31, 2012	\$ -	\$ -	\$ 2,036,692	\$ -	\$ 356,408	\$3,943,788	\$ 6,336,888

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5. EXPLORATION AND EVALUATION ASSETS (cont'd)

Title to exploration and evaluation assets 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 exploration and evaluation assets. The Company has investigated title to its exploration and evaluation assets and to the best of its knowledge, title to its exploration and evaluation assets are in good standing.

Michigan Lands, Michigan, U.S.A.

Mineral Rights

The Company owns a 100% interest in certain mineral rights in the Upper Peninsula of Michigan, U.S.A. On some of the mineral rights the vendor retains a 2% net smelter return royalty (NSR) and the Company has the option to purchase one half of this NSR royalty by paying \$1,000,000 U.S. on or before December 31, 2048. The Company's remaining wholly-owned mineral rights are not encumbered by royalties.

Federal and State Mineral Rights

The Bureau of Land Management has issued prospecting permits to the Company on certain federally-owned mineral rights in the Upper Peninsula of 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 no State of Michigan metallic minerals leases as of October 31, 2012.

Mineral Rights Leased from a Third Party

The Company has entered into a minerals lease covering approximately 1,240 acres owned by a third party in the Upper Peninsula of Michigan, U.S.A. In order to maintain the lease in good standing on the entire 1,240 acres, 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 paid rentals of US\$18,600 in fiscal 2012. The Company has the right to reduce the rental payments by releasing minimum 40-acre portions of the leased lands at any time, upon notice to the third party lessor. Subsequent to the year ended October 31, 2012, the Company released 640 acres of the leased lands and the aggregate rental payments through January 12, 2020 were reduced to US\$214,000.

During the year ended October 31, 2012, the Company incurred exploration expenditures of \$301,471 (2011 - \$266,718) relating to the Michigan properties.

Mineral Creek Property, B.C., Canada

In April 2012, the Company sold its 100% interest in the Mineral Creek mineral claims, related data, equipment and associated environmental obligations for a purchase price of \$1,000,000 and accordingly recorded a loss on sale of exploration and evaluation assets of \$4,679,141. A referral fee of \$50,000 was paid in conjunction with the sale of the Mineral Creek claims.

During the year ended October 31, 2012, the Company incurred exploration expenditures of \$130,147 (2011 - \$405,444) relating to the Mineral Creek property and received \$Nil (2011 - \$45,563) from the sale of dore.

North Brenda Property, B.C., Canada

The Company owns a 100% interest in the North Brenda property located in the Osoyoos mining division, 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, 2012, the Company incurred acquisition and exploration expenditures of \$65,839 (2011 - \$121,873) relating to the North Brenda property.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd)

Windy Property, Nunavut Canada

The Company owns a 100% interest in the Windy gold property in southern Nunavut.

During the year ended October 31, 2012, the Company incurred acquisition and exploration expenditures of \$221,822 (2011 - \$134,586) relating to the Windy Property.

GK Property, B.C., Canada

The Company owns a 100% interest in the GK gold property located in the Greenwood mining division, 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 ceased exploration on the GK Property and wrote off \$3,003,829 of costs related to the GK Property.

SPN Property, B.C., Canada

The Company owns a 100% interest in the SPN claims, located in the Kamloops mining division, 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 ceased exploration on the SPN property and wrote off \$527,664 of costs related to the SPN Property.

6. EQUIPMENT

	Computer hardware	Field equipment	Furniture and fixtures	Leasehold improvements	Total
Cost					
Balance - November 1, 2010	\$ 9,396	\$ 20,094	\$ 9,381	\$ 10,646	\$ 49,517
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance - October 31, 2011	9,396	20,094	9,381	10,646	49,517
Additions	-	-	-	-	-
Disposals	-	(20,094)	-	-	(20,094)
Balance - October 31, 2012	9,396	-	9,381	10,646	29,423
Accumulated depreciation					
Balance - November 1, 2010	8,760	17,488	4,789	5,967	37,004
Additions	191	782	918	936	2,827
Balance - October 31, 2011	8,951	18,270	5,707	6,903	39,831
Additions	133	547	735	749	2,164
Disposal	-	(18,817)	-	-	(18,817)
Balance - October 31, 2012	9,084	-	6,442	7,652	23,178
Carrying amounts					
November 1, 2010	636	2,606	4,592	4,679	12,513
October 31, 2011	445	1,824	3,674	3,743	9,686
October 31, 2012	\$ 312	\$ -	\$ 2,939	\$ 2,994	\$ 6,245

During the year ended October 31, 2012, the Company sold its claims and equipment in the Mineral Creek Property (Note 5) and accordingly recorded a loss on sale of equipment of \$1,277.

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2012	October 31, 2011	November 1, 2010
Trade accounts payable	\$ 57,416	\$ 49,522	\$ 125,853
Investment tax credit repayment and flow-through share expense accrual	-	179,390	-
Accrued liabilities	48,204	69,000	56,250
	\$ 105,620	\$ 297,912	\$ 182,103

8. DECOMMISSIONING AND RESTORATION PROVISION

The Company's obligations with respect to asset retirement related to reclamation of the Mineral Creek Property site on which project operations are situated. The obligation was recognized in the period in which the obligation was created based on the estimated future reclamation costs using a rate of 10 percent and estimated inflation of 1.92 percent annually. The total undiscounted future obligation was \$53,315. The Company estimated its obligations to be settled in approximately 10 years from initial recognition.

During the year ended October 31, 2012, the Company sold its claims and equipment in the Mineral Creek Property (Note 5) and accordingly reduced its decommissioning and restoration provision to \$nil.

Balance - November 1, 2010	\$ 24,872
Accretion expense	2,487
Balance - October 31, 2011	27,359
Accretion expense	1,368
Disposals	(28,727)
Balance - October 31, 2012	\$ -

9. SHARE CAPITAL AND EQUITY RESERVES

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

During the year ended October 31, 2012, the Company issued common shares pursuant to the following:

- (i) On April 25, 2012, the Company issued 10,000,000 units priced at \$0.05 per unit for gross proceeds of \$500,000. Each unit consists of one common share and one half of a common share purchase warrant. Each full warrant is exercisable at \$0.10 expiring April 24, 2013. The fair value of the warrants of \$100,000 was allocated to equity reserves. In connection with this private placement, the Company paid a finder's fee of \$30,000 and issued 600,000 broker warrants which are exercisable into common shares at \$0.10 per share expiring April 24, 2013. The fair value of the broker warrants under the Black-Scholes pricing model was \$4,094 and was recorded as share issue costs.
- (ii) Issued 705,114 common shares for gross proceeds of \$73,806 from exercise of broker warrants. Accordingly, \$23,420 was transferred from equity reserves to share capital.
- (iii) Issued 500,000 common shares for gross proceeds of \$50,000 from exercise of warrants.

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9. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

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 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 equity reserves to share capital.
- (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 equity reserves. 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 equity reserves. 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.

Warrants

Warrant transactions are summarized as follows:

	Number Of Warrants	Weighted Average Exercise Price
Balance - November 1, 2010	520,000	\$ 0.12
Issued	18,796,108	0.10
Broker warrants	1,337,554	0.11
Expired	<u>(270,000)</u>	<u>0.12</u>
Balance - October 31, 2011	20,383,662	0.10
Issued	5,600,000	0.10
Exercised	(1,205,114)	0.10
Expired	<u>(250,000)</u>	<u>0.12</u>
Balance - October 31, 2012	24,528,548	\$ 0.10

The weighted average trading price at the date the warrants were exercised during the year ended October 31, 2012 was \$0.16 (2011 - \$nil).

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9. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

The following share purchase warrants were outstanding at October 31, 2012:

Number of Warrants	Exercise Price	Expiry Date
5,600,000	\$ 0.10	April 24, 2013
1,261,108	\$ 0.15	June 24, 2013
17,667,440	\$ 0.10	October 27, 2013
24,528,548		

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

	2012	2011
Volatility	136%	104%
Risk-free interest rate	1.42%	2.28%
Dividend yield	-	-
Expected life	1.00 year	2.00 years

Stock options

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 - November 1, 2010	7,574,500	\$ 0.30
Granted	1,405,000	0.12
Exercised	(10,000)	0.12
Expired	(615,000)	0.53
Cancelled	(1,530,000)	0.21
Balance - October 31, 2011	6,824,500	0.26
Granted	4,090,000	0.10
Expired	(1,260,000)	0.56
Balance - October 31, 2012	9,654,500	\$ 0.15

The weighted average trading price at the date the options were exercised during the year ended October 31, 2012 was \$nil (2011 - \$0.12).

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9. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

The following stock options were outstanding and exercisable at October 31, 2012:

Range of Exercise Price	Options Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
(\$)		(years)	(\$)
0.00 – 0.24	8,880,000 ¹	3.34	0.12
0.25 – 0.49	359,500 ²	0.37	0.34
0.75 – 0.99	415,000	0.65	0.76
	9,654,500	3.07	0.15

¹ 50,000 subsequently expired.

² 315,000 subsequently expired.

The weighted average fair value of each stock option granted during the period was \$0.06 (2011 - \$0.10), calculated using the Black-Scholes option-pricing model on the grant date using the following weighted average assumptions:

	2012	2011
Volatility	141%	104%
Risk-free interest rate	1.34%	2.57%
Dividend yield	-	-
Expected life	5.00 years	5.00 years

Share-based payments

Total share-based payments recognized for stock options granted during the year ended October 31, 2012 was \$264,337 (2011 - \$135,062). Share-based payments of \$2,486 (2011 - \$23,416) was capitalized to exploration and evaluation assets for options granted to field consultants and \$261,851 (2011 - \$111,646) was expensed to operations for options granted to directors, officers, corporate consultants and employees of the Company.

10. FLOW-THROUGH SHARE PREMIUM LIABILITY

	Issued on December 3, 2009	Issued on November 25, 2010	Total
Balance - November 1, 2010	\$ 5,901	\$ -	\$ 5,901
Liability incurred on flow-through shares issued	-	70,000	70,000
Settlement of flow-through share liability upon expenditures being incurred	(5,901)	(54,601)	(60,502)
Balance - October 31, 2011	\$ -	\$ 15,399	\$ 15,399
Settlement of flow-through liability upon expenditures being incurred	-	(15,399)	(15,399)
Balance - October 31, 2012	\$ -	\$ -	\$ -

On December 3, 2009, the Company completed a private placement consisting of the issue and sale of 5,901,666 flow-through shares at a price of \$0.12 per flow-through share for gross proceeds of \$708,200. The premium received on the shares issued was determined to be \$29,508 and has been recorded as a share capital reduction. An equivalent premium liability was recorded and reduced when the required exploration expenditures were incurred.

On November 25, 2010, the Company completed a private placement consisting of the issue and sale of 7,000,000 flow-through shares at a price of \$0.11 per flow-through share for gross proceeds of \$770,000. The premium received on the shares issued was determined to be \$70,000 and has been recorded as a share capital reduction. An equivalent premium liability was recorded and reduced when the required exploration expenditures were incurred.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO SUPPLEMENTAL CASH FLOWS

Significant non-cash transactions during the year ended October 31, 2012 included:

- (a) The Company issued 600,000 broker's warrants valued at \$4,094 as a share issue cost in connection with the private placement during the year.
- (b) Included in exploration and evaluation assets is \$55,077 which relates to accounts payable and accrued liabilities.
- (c) Included in exploration and evaluation assets is \$2,486 which relates to share-based payments.
- (d) The Company allocated \$23,420 broker warrants exercised during the year to share capital from equity reserves.
- (e) Valuation of warrants attached to units in private placement of \$100,000.

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 exploration and evaluation assets is \$153,023 which relates to accounts payable and accrued liabilities.
- (c) Included in exploration and evaluation assets is \$23,416 which relates to share-based payments.
- (d) Included in exploration and evaluation assets is a reclassification of a tax credit of \$67,237 from accounts receivable to exploration and evaluation assets.
- (e) The Company allocated \$732 arising from stock options and broker warrants exercised during the year to share capital from equity reserves.
- (f) Included in share capital is deferred income taxes on exploration expenditures renounced to shareholders of \$70,000 and a deferred income tax effect on share issue costs of \$30,000.
- (g) Valuation of warrants attached to units in private placement for \$23,222.

12. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions and balances during the year ended October 31, 2012, not disclosed elsewhere in the financial statements:

- (a) Management fees of \$96,000 (2011 - \$96,000) were incurred from a company controlled by a director in common.
- (b) Accounts payable at October 31, 2012 includes \$nil (2011 - \$756; November 1, 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) Share-based payments include stock options granted to directors and officers recorded at a fair value of \$261,851 (2011 - \$107,054).

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13. SEGMENTED INFORMATION

Industry information

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

Geographic information

The Company operates in both Canada and the U.S.A. The Company's equipment and reclamation deposits are in Canada. The Company's exploration and evaluation assets in geographic locations are as follows:

	October 31, 2012	October 31, 2011	November 1, 2010
Canada	\$ 2,393,100	\$ 7,654,433	\$ 10,128,269
U.S.A.	3,943,788	3,642,317	3,375,599
Total exploration and evaluation assets	\$ 6,336,888	\$ 11,296,750	\$ 13,503,868

14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Capital management

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

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through short-term prospectuses and private placements, or return capital to shareholders. As at October 31, 2012, the Company does not have any debt and is not subject to externally imposed capital requirements.

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.

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 consists 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.

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, receivables and reclamation deposits. The Company limits exposure to credit risk by maintaining its cash 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 accrued interest receivable and 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, receivables and reclamation deposits.

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14. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (cont'd)

Currency risk

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

Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash. The Company's practice has been to invest cash at floating rates of interest 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 as they are generally held with large financial institutions.

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.

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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 measured based on level 1 inputs of the fair value hierarchy.

The estimated fair value of financial liabilities is equal to their carrying values due to the short-term nature of these instruments.

15. COMMITMENTS

- (a) The Company is required to make certain cash payments to maintain its exploration and evaluation assets, as described in Note 5.
- (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:

2013	\$	20,087
2014		20,766
2015		8,770
	\$	<u>49,623</u>

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16. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying consolidated statements of comprehensive loss is provided below:

	Years ended October 31,	
	2012	2011
Accounting profit (loss) before income taxes	\$ (5,338,163)	\$ (4,042,357)
Combined federal and provincial statutory income tax rate	25.25%	26.83%
Income tax expense (recovery) at statutory tax rates	\$ (1,348,000)	\$ (1,085,000)
Non-deductible expenditures and non-taxable revenues	66,000	34,000
Impact of future income tax rates applied versus current statutory rate	13,000	72,000
Impact of flow through shares	47,000	195,000
Share issue costs	(8,000)	(33,000)
Adjustment to prior years provision versus statutory tax returns	(475,000)	281,000
Change in unrecognized deductible temporary differences and other	857,000	46,933
Total	\$ (848,000)	\$ (489,067)

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	As of October 31,	
	2012	2011
Deferred income tax assets (liabilities)		
Exploration and evaluation assets	\$ 424,000	\$ (2,547,000)
Share issue costs	31,000	43,000
Non-Capital losses	891,000	1,638,000
Capital assets	26,000	11,000
ARO	-	7,000
Net deferred tax assets (liabilities)	\$ 1,372,000	\$ (848,000)

The Company has non-capital losses for Canadian income tax purposes of approximately \$3,563,000 which may be carried forward and applied against taxable. These losses, if utilized, will expire through to 2032.

Tax attributes are subject to review and potential adjustment by tax authorities.

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17. FIRST TIME ADOPTION OF IFRS

As stated in note 2, these consolidated financial statements are prepared in accordance with IFRS.

The accounting policies in note 3 have been applied in preparing the financial statements for the year ended October 31, 2011 and the opening IFRS statement of financial position on the Transition Date, November 1, 2010.

Under IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to deficit unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exemptions for first time IFRS adopters.

(a) Optional exemptions

Share-based payments

IFRS 1 permits the application of IFRS 2, Share-based Payments, only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company has elected to apply this exemption and will apply IFRS 2 only to equity instruments that had not vested by November 1, 2010.

Business Combinations

The Company has elected not to retrospectively apply IFRS 3 Business Combinations to any business combination that may have occurred prior to its Transition Date and such business combinations have not been restated.

(b) Mandatory exceptions

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of November 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliation of Canadian GAAP and comprehensive loss to IFRS

IFRS requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the statements of financial positions and statements of comprehensive loss as shown in the tables below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

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17. FIRST TIME ADOPTION OF IFRS (cont'd)

The November 1, 2010 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 585,399	\$ -	\$ 585,399
Prepaid expenses		9,428	-	9,428
Receivables		118,137	-	118,137
Total current assets		712,964	-	712,964
Non-current assets				
Reclamation deposit		23,300	-	23,300
Equipment		12,513	-	12,513
Exploration and evaluation assets		13,503,868	-	13,503,868
Total non-current assets		13,539,681	-	13,539,681
Total assets		\$ 14,252,645	\$ -	\$ 14,252,645
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 182,103	\$ -	\$ 182,103
Flow-through share premium liability	17 (i)	-	5,901	5,901
Total current liabilities		182,103	5,901	188,004
Non-current liabilities				
Decommissioning and restoration provision		24,872	-	24,872
Deferred tax liability		1,367,067	-	1,367,067
Total non-current liabilities		1,391,939	-	1,391,939
Total liabilities		1,574,042	5,901	1,579,943
SHAREHOLDERS' EQUITY				
Share capital	17 (i)	19,528,877	202,240	19,731,117
Equity reserves		3,025,141	-	3,025,141
Deficit	17 (i)	(9,875,415)	(208,141)	(10,083,556)
Total shareholders' equity		12,678,603	(5,901)	12,672,702
Total liabilities and shareholders' equity		\$ 14,252,645	\$ -	\$ 14,252,645

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17. FIRST TIME ADOPTION OF IFRS (cont'd)

The October 31, 2011 Canadian GAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 772,964	\$ -	\$ 772,964
Prepaid expenses		5,128	-	5,128
Receivables		35,919	-	35,919
Total current assets		814,011	-	814,011
Non-current assets				
Reclamation deposit		23,300	-	23,300
Equipment		9,686	-	9,686
Exploration and evaluation assets		11,296,750	-	11,296,750
Total non-current assets		11,329,736	-	11,329,736
Total assets		\$ 12,143,747	\$ -	\$ 12,143,747
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 297,912	\$ -	\$ 297,912
Flow-through share premium liability	17 (i)	-	15,399	15,399
Total current liabilities		297,912	15,399	313,311
Non-current liabilities				
Decommissioning and restoration provision		27,359	-	27,359
Deferred tax liability		848,000	-	848,000
Total non-current liabilities		875,359	-	875,359
Total liabilities		1,173,271	15,399	1,188,670
SHAREHOLDERS' EQUITY				
Share capital	17 (i)	21,049,669	324,740	21,374,409
Equity reserves		3,217,514	-	3,217,514
Deficit	17 (i)	(13,296,707)	(340,139)	(13,636,846)
Total shareholders' equity		10,970,476	(15,399)	10,955,077
Total liabilities and shareholders' equity		\$ 12,143,747	\$ -	\$ 12,143,747

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17. FIRST TIME ADOPTION OF IFRS (cont'd)

The Canadian GAAP consolidated statement of comprehensive loss for the year ended October 31, 2011 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of Transition to IFRS	IFRS
General and Administrative Expenses				
Accretion		\$ 2,487	\$ -	\$ 2,487
Depreciation		2,827	-	2,827
Foreign exchange loss		5,249	-	5,249
Interest and bank charges		2,663	-	2,663
Management fees		96,000	-	96,000
Office and printing		186,999	-	186,999
Professional fees		74,038	-	74,038
Property investigation		51,154	-	51,154
Regulatory fees		8,405	-	8,405
Shareholder information		16,172	-	16,172
Share-based payments		111,646	-	111,646
Transfer agent fees		14,383	-	14,383
Operating expenses		(572,023)	-	(572,023)
Interest income		657	-	657
Other income on settlement of flow-through share premium liability	17 (i)	-	60,502	60,502
Write-off of exploration and evaluation assets		(3,531,493)	-	(3,531,493)
		(3,530,836)	60,502	(3,470,334)
Loss before income taxes		(4,102,859)	60,502	(4,042,357)
Deferred income tax recovery	17 (i)	681,567	(192,500)	489,067
Loss and comprehensive loss for the year		\$(3,421,292)	\$ (131,998)	\$ (3,553,290)

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17. FIRST TIME ADOPTION OF IFRS (cont'd)

Explanations for the adjustments are as follows:

(i) *Flow-through shares*

Under Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

As a result, for issuance of flow-through shares for which expenditures have been renounced, share capital was increased by \$202,240 at the date of transition (October 31, 2011 - \$324,740) and deficit was increased by \$208,141 at the date of transition (October 31, 2011 - \$340,139).

Where flow-through shares were issued but expenditures were not incurred by the end of the reporting period, a liability is shown in 'flow-through share premium liability.' This resulted in a liability of \$5,901 at November 1, 2010 (October 31, 2011 - \$15,399) and a corresponding decrease in share capital for the same amount. The impact on loss and comprehensive loss for the year ended October 31, 2011 was \$131,998.

Presentation differences

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- i. Exploration and evaluation assets ("Resource properties")
- ii. Decommissioning and restoration provision ("Asset retirement obligation")
- iii. Equity reserves ("Contributed surplus")

18. SUBSEQUENT EVENTS

Subsequent to October 31, 2012, the Company:

- a) Issued 135,000 common shares upon exercise of warrants for gross proceeds of \$13,500.
- b) Adopted a Shareholder Rights Plan on February 5, 2013, subject to regulatory acceptance by the TSX Venture Exchange and ratification by Bitterroot's shareholders at the annual general and special meeting on February 20, 2013.