

Otis Gold Corp.
(Formerly Otis Capital Corp.)
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Otis Gold Corp.

We have audited the consolidated balance sheets of Otis Gold Corp. (Formerly Otis Capital Corp.) (An Exploration Stage Company) as at June 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

"D&H Group LLP"

Vancouver, B.C.
October 14, 2009

Chartered Accountants

Otis Gold Corp.
(Formerly Otis Capital Corp.)
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	June 30,	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,427,495	\$ 2,404,920
Amounts receivable	42,299	8,689
Share subscriptions receivable (Note 5)	445,000	–
Prepaid expenses and deposits	<u>53,361</u>	<u>79,134</u>
	1,968,155	2,492,743
RECLAMATION DEPOSIT	7,526	–
PROPERTY AND EQUIPMENT (Note 3)	6,608	–
UNPROVEN MINERAL INTERESTS (Note 4)	2,394,944	–
DEFERRED FINANCING COSTS	<u>–</u>	<u>33,780</u>
	<u>\$ 4,377,233</u>	<u>\$ 2,526,523</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 144,429</u>	<u>\$ 121,294</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	4,705,964	875,469
COMMON SHARE SUBSCRIPTIONS	–	1,645,000
CONTRIBUTED SURPLUS (Note 12)	117,237	28,253
RETAINED EARNINGS (DEFICIT)	<u>(590,397)</u>	<u>(143,493)</u>
	<u>4,232,804</u>	<u>2,405,229</u>
	<u>\$ 4,377,233</u>	<u>\$ 2,526,523</u>
SUBSEQUENT EVENTS (Note 14)		

See accompanying summary of accounting policies, schedule and notes to the financial statements.

Approved by the Board “Craig T. Lindsay” Director “Sean Mitchell” Director

Otis Gold Corp.
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For the years ended June 30
CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS AND DEFICIT

	<u>2009</u>	<u>2008</u>
EXPENSES		
Consultants	\$ 128,439	\$ —
Investor relations and advertising	81,657	—
Stock-based compensation	81,278	22,723
Office expenses	77,259	14,071
Professional fees	54,977	75,602
Regulatory costs	24,197	28,447
Travel	27,175	—
Property investigations	4,083	5,538
Bank charges	3,521	2,379
Amortization	524	—
	<u>(483,110)</u>	<u>(148,760)</u>
OTHER ITEM		
Interest income	<u>36,206</u>	<u>10,908</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(446,904)	(137,852)
RETAINED EARNINGS (DEFICIT), beginning of year	<u>(143,493)</u>	<u>(5,641)</u>
RETAINED EARNINGS (DEFICIT), end of year	<u>\$ (590,397)</u>	<u>\$ (143,493)</u>
NET INCOME (LOSS) PER SHARE, basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.10)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>9,410,290</u>	<u>1,377,486</u>

See accompanying summary of accounting policies, schedule and notes to the financial statements.

Otis Gold Corp.
(Formerly Otis Capital Corp.)
(An Exploration Stage Company)
For the years ended June 30
CONSOLIDATED STATEMENTS OF CASH FLOW

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (446,904)	\$ (137,852)
Adjustments to reconcile net cash provided by operating activities		
Amortization of property and equipment	524	–
Stock-based compensation	81,278	22,723
Decrease (increase) in		
Amounts receivable	(33,610)	11,911
Prepaid expenses and deposits	25,773	(79,134)
Increase (decrease) in		
Accounts payable and accrued liabilities	(37,687)	115,194
	<u>(410,626)</u>	<u>(67,158)</u>
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Reclamation deposit paid	(7,526)	–
Purchase of property and equipment	(4,211)	–
Expenditures on unproven mineral interests	(1,410,356)	–
	<u>(1,422,093)</u>	<u>–</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of common shares	976,550	753,700
Subscriptions received for common shares	–	1,645,000
Share issue costs paid	(121,256)	(106,481)
	<u>855,294</u>	<u>2,292,219</u>
INCREASE (DECREASE) IN CASH DURING THE YEAR	(977,425)	2,225,061
CASH, beginning of year	<u>2,404,920</u>	<u>179,859</u>
CASH, end of year	\$ <u>1,427,495</u>	\$ <u>2,404,920</u>

See Note 9.

See accompanying summary of accounting policies, schedule and notes to the financial statements.

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CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS

	<u>Oakley Idaho</u>	<u>Kilgore Idaho</u>	<u>Buckhorn Idaho</u>	<u>Other</u>	<u>Total</u>
ACQUISITION COSTS	\$ 896,144	\$ 420,978	\$ 21,465	\$ 22,423	\$ 1,361,010
EXPLORATION COSTS					
Drilling and assays	10,129	326,439	5,696	2,586	344,850
Geologists	110,320	231,716	7,496	18,541	368,073
Travel	39,249	42,970	1,809	5,660	89,688
Mapping and surveying	72,681	53,507	16,597	–	142,785
Annual maintenance fees	10,269	21,622	2,612	41,559	76,062
Site office and field supplies	2,193	10,178	–	105	12,476
	<u>244,841</u>	<u>686,432</u>	<u>34,210</u>	<u>68,451</u>	<u>1,033,934</u>
BALANCE, June 30, 2009	\$ 1,140,985	\$ 1,107,410	\$ 55,675	\$ 90,874	\$ 2,394,944

Otis Gold Corp.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. OPERATIONS

Otis Capital Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on April 24, 2007 and changed its name to Otis Gold Corp. on January 14, 2009. The Company's common shares are listed on the TSX Venture Exchange (the "Exchange") under the trading symbol OOO. As a capital pool company, the Company's business objective was to identify and evaluate assets or businesses with a view to potential acquisition or participation by completing a Qualifying Transaction ("QT").

On July 15, 2008, the Company completed its QT and a secondary transaction. The QT consisted of the acquisition of an option to acquire a 100% interest in the Blue Hill Creek Project located in Cassia County, Idaho. The Company also acquired an option to earn up to a 75% interest in the Kilgore Gold Project, located in Clark County, Idaho, and the Hai and Gold Bug properties, located in Lemhi County, Idaho.

The Company presently has no proven or probable reserves and, on the basis of information to date, has not yet determined whether its unproven mineral interests contain economically recoverable reserves. Consequently, the Company considers itself to be an exploration stage company. The amounts shown as unproven mineral interests and deferred costs represent costs incurred to date, less amounts amortized, written off or recovered under option agreements, and do not necessarily represent present or future values. The underlying value of the unproven mineral interests is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, the ability of the Company and its optionees to obtain the necessary financing to complete development, and future profitable production or sale of the interests.

2. ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which necessarily involves the use of estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of significant accounting policies summarized below.

Use of estimates

Significant estimates made by management include amortization, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, impairment of unproven mineral interests and capital assets, asset retirement obligations and stock-based compensation. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

Basis of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Otis Capital USA Corp. All intercompany transactions and balances are eliminated on consolidation.

Property and equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided over the estimated useful life of the property and equipment using the following annual rates and methods:

Computer and electronic equipment	– 30% declining balance
Office and field equipment	– 20% declining balance

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

2. ACCOUNTING POLICIES – continued

Unproven mineral interests

The Company's unproven mineral interests are in the process of being evaluated. As yet, it has not been determined if the interests contain reserves that are economically recoverable. The recoverability of the carrying amounts of the unproven mineral interests is dependent upon the existence of economically recoverable reserves, future profitable production and the ability of the Company to obtain the necessary financing to complete development.

Acquisition, exploration, development and administration costs relating to unproven mineral interests are capitalized until the interest to which they relate is placed into production, sold or abandoned. Amounts received under option agreements with third parties reduce the carrying amount of the unproven mineral interest under option; option amounts in excess of the capitalized costs are income. Capitalized costs will be amortized over the useful life of the orebody following commencement of production or written off if the interest is sold or abandoned. General and administration costs are expensed as incurred.

Management reviews the carrying values of unproven mineral interests with a view to assessing whether there has been any impairment of value. When it is determined that an unproven mineral interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Title to unproven mineral interests involves certain inherent risks due to the difficulty in determining the validity of certain claims as well as the potential for disputes to arise from the frequently ambiguous conveyance history of many unproven mineral interests.

Option agreements

From time to time, the Company acquires unproven mineral interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are accounted for as payments are made.

Foreign currency translation

The Company's wholly-owned U.S. subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in income or loss for the period.

Impairment of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying value exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Asset retirement obligation

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at June 30, 2009 and 2008, the Company does not have any asset retirement obligations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

2. ACCOUNTING POLICIES – continued

Deferred financing costs

Costs relating to the issue of equity securities are deferred until the securities are issued, at which time the accumulated costs are offset against the proceeds from sale of the securities.

Revenue recognition

Interest income is recognized as earned and when collection is believed to be reasonably assured.

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares issued and outstanding during the period.

Stock-based compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are accounted for as awards vest, with offsetting amounts recognized as contributed surplus.

Income taxes

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

Financial instruments

Financial assets are classified as either held for trading, held to maturity, loans and receivables or available for sale and financial liabilities as either held for trading or as other financial liabilities. Upon initial recognition, ordinarily all financial instruments are recognized at fair value. Subsequently, financial assets classified as held to maturity and as loans and receivables, and other financial liabilities, are accounted for at amortized cost. Financial assets and financial liabilities classified as held for trading are accounted for at fair value with unrealized holding gains and losses included in net income each period. Available for sale financial assets are also accounted for at fair value, however unrealized holding gains and losses on these instruments are included in the statement of loss, comprehensive loss and deficit as other comprehensive income and on the balance sheet as a separate component of shareholders' equity titled accumulated other comprehensive income.

New accounting standards

Effective on July 1, 2009, the Company will adopt Section 3064 "Goodwill and intangible assets". Section 3064 replaces Sections 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets including internally developed intangible assets. The adoption of Section 3064 is anticipated to have no effect on the Company's financial statements.

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June 30, 2009 and 2008

2. **ACCOUNTING POLICIES** – continued

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has determined that Canadian accounting standards for publicly-listed companies will converge with International Financial Reporting Standards (“IFRS”) effective for interim and annual periods beginning on and after January 1, 2011. The adoption of IFRS in 2011 will require restatement for comparative purposes of figures presented for the 2010 fiscal year. The Company understands there to be material differences between Canadian GAAP and IFRS, and is therefore monitoring this project with a view to understanding the possible future effects of the transition to IFRS, which cannot be reasonably estimated at this time.

3. **PROPERTY AND EQUIPMENT**

	June 30, 2009		
	Cost	Accumulated amortization	Net
Office equipment	\$ 2,921	\$ 146	\$ 2,775
Computer equipment	4,211	378	3,833
	<u>\$ 7,132</u>	<u>\$ 524</u>	<u>\$ 6,608</u>

4. **UNPROVEN MINERAL INTERESTS**

Kilgore Gold Project

In July 2008, the Company entered into a joint venture on the Kilgore Gold Project located in Clark County, Idaho and the Hai and Gold Bug properties located in Lemhi County, Idaho. The Kilgore property is covered by 150 federal lode mining claims and the Hai and Gold Bug properties are covered by 16 federal lode mining claims. The Company can earn up to a 75% joint venture interest in the Kilgore, Hai and Gold Bug properties

The Company can earn an initial 50% interest by paying \$ 200,000, issuing 2,500,000 common shares and incurring US\$ 3,000,000 of exploration expenditures as follows:

- a) Payment of US\$ 100,000 (paid) and issuance of 500,000 common shares (issued) upon Exchange approval;
- b) Payment of US\$ 100,000 (paid) and issuance of 400,000 common shares (see Note 14) and US\$ 250,000 of exploration expenditures by July 15, 2009;
- c) Issuance of 400,000 common shares and US\$ 350,000 of exploration expenditures by July 15, 2010;
- d) Issuance of 400,000 common shares and US\$ 500,000 of exploration expenditures by July 15, 2011;
- e) Issuance of 400,000 common shares and US\$ 900,000 of exploration expenditures by July 15, 2012;
- f) Issuance of 400,000 common shares and US\$ 1,000,000 of exploration expenditures by July 15, 2013.

The Company can increase its interest to 75% by issuing an additional 1,000,000 common shares and by completing a pre-feasibility study on the Kilgore Gold Project. In the event the Company does not exercise its right to earn the additional 25% interest, the joint venture partner may elect to earn back a 10% interest, reducing the Company’s interest to 40%, by expending US\$ 600,000 within the year following its election to exercise.

The 500,000 common shares issued during the year ended June 30, 2009 were accounted for at their estimated fair value of \$200,000.

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June 30, 2009 and 2008

4. UNPROVEN MINERAL INTERESTS - continued

Oakley Project – The Oakley Project consists of 2 properties – Blue Hill Creek and Cold Creek Gold, which are adjacent to each other.

a) **Blue Hill Creek (“Blue Hill Creek” or “BHC”)**

On June 11, 2008, the Company entered into an option agreement to acquire a 100% interest in the Blue Hill Creek option located in Cassia County, Idaho; the property consists of 33 unpatented federal lode mining claims and an adjacent 80 acre Idaho State lease.

The Company has paid a total of US\$ 80,000 and has issued 2,250,000 common shares to acquire an undivided 20% interest in BHC. To maintain its option the Company shall do the following:

- a) On or before July 15, 2009, pay US\$ 50,000 (paid) and issue 750,000 common shares (see Note 14) to acquire an aggregate 30% interest in BHC;
- b) Issue 750,000 common shares on or before January 15, 2010 to acquire an aggregate 40% interest in BHC;
- c) On or before July 15, 2010, pay US\$ 60,000 and issue 750,000 common shares to acquire an aggregate 50% interest in BHC;
- d) Issue 750,000 common shares on or before January 15, 2011 to acquire an aggregate 60% interest in BHC;
- e) On or before July 15, 2011, pay US\$ 70,000 and issue 750,000 common shares to acquire an aggregate 70% interest in BHC;
- f) On or before July 15, 2012, pay US\$ 80,000 to acquire an aggregate 85% interest in BHC; and
- g) On or before July 15, 2013, pay US\$ 100,000 to acquire an aggregate 100% interest in BHC.

The BHC option payments may be accelerated at any time at the option of the Company. In addition to the foregoing, the Company will be responsible for filing and paying all annual assessments and fees relating to BHC.

The common shares issued during the year ended June 30, 2009 were accounted for at their estimated fair value of \$742,500.

A 2.5% net smelter returns royalty (“NSR”) will be paid to the vendors on production of gold from BHC. At any time, the Company may buy the NSR, or a portion thereof, for US\$ 1,000,000 per percentage point (i.e. \$ 2,500,000 for the entire NSR).

b) **Cold Creek Gold**

The Cold Creek Gold property, located in Cassia County, Idaho, consists of 53 unpatented federal lode mining claims. The Company acquired the claims in exchange for payment of the costs associated with staking the property.

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4. **UNPROVEN MINERAL INTERESTS** – continued

Buckhorn Property

The Buckhorn property, located in Lemhi County, Idaho, consists of 20 unpatented lode mining claims.

Under the agreement with the owner effective July 17, 2008, the Company is required to do the following:

- a) In year one: Pay \$ 10,000 (paid), issue 20,000 common shares, reimburse costs of US\$ 6,000 (paid) and incur US\$ 25,000 in exploration expenditures (incurred).
- b) In year two: Pay US\$ 20,000 as an advance royalty and incur US\$ 50,000 of exploration expenditures.
- c) In year three: Pay US\$ 25,000 as an advance royalty and incur US\$ 75,000 of exploration expenditures.
- d) In year four and each subsequent year: Pay US\$ 30,000 as an advance royalty.

The property is subject to a net smelter return royalty of either 3% or 4% if silver trades at a price of greater than US\$ 20 per troy ounce.

Other projects

The Company has several other early stage exploration projects located in Nevada.

5. **SHARE CAPITAL**

- a) Authorized
 Unlimited common shares without par value

	June 30,			
	2009		2008	
	Shares	Amount	Shares	Amount
b) Issued				
Balance, beginning of year	5,314,000	\$ 875,469	2,100,000	\$ 210,000
Common shares issued for				
Cash	8,477,000	3,063,000	3,200,000	750,000
Unproven mineral interests	2,750,000	942,500	–	–
Warrants exercised	17,750	4,691	14,000	3,700
	<u>16,558,750</u>	<u>4,885,660</u>	<u>5,314,000</u>	<u>963,700</u>
Less: Share issue costs paid	–	179,696	–	88,231
Balance, end of year	<u>16,558,750</u>	<u>\$ 4,705,964</u>	<u>5,314,000</u>	<u>\$ 875,469</u>

In conjunction with the Qualifying Transaction, the Company completed a non-brokered private placement of 3,775,000 units at \$ 0.50 for gross proceeds of \$ 1,887,500. Each unit consisted of one common share and one common share purchase warrant exercisable at \$ 0.70 per share in the first year and at \$ 0.90 per share in the second year. Commissions and finder's fees of \$ 89,425 were paid in connection with the financing.

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5. **SHARE CAPITAL** – continued

In June 2009, the Company completed a non-brokered private placement of 4,702,000 units at \$ 0.25 for gross proceeds of \$ 1,175,500, of which \$ 445,000 was receivable at June 30, 2009. Each unit consisted of one common share and one common share purchase warrant exercisable at \$ 0.35 in the first year and at \$ 0.55 in the second year. Finder's fees of \$ 10,000 cash were paid and 127,000 share purchase warrants were issued; the warrants are exercisable at \$ 0.25 for eighteen months. The share purchase warrants were accounted for at their estimated fair value of \$ 8,847, determined using the Black-Scholes option pricing model.

- c) Pursuant to escrow agreement, 2,741,666 common shares are being held in escrow and 548,332 will be released every six months with the next release scheduled for July 2009. The escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.
- d) Details of share purchase warrant transactions during the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Outstanding, beginning of year	86,000	–
Issued	8,604,000	100,000
Exercised	<u>(17,750)</u>	<u>(14,000)</u>
Outstanding, end of year	<u>8,672,250</u>	<u>86,000</u>

As at June 30, 2009, the Company has outstanding share purchase warrants as follows:

<u>Number</u>	<u>Exercise price</u>	<u>Expiry date</u>
68,250	\$ 0.20	November 2009
3,775,000	0.70 ⁽¹⁾	July 2010
4,702,000	0.35 ⁽²⁾	June 2011
<u>127,000</u>	0.25	December 2010
<u>8,672,250</u>		

- (1) Exercise price increases to \$ 0.90 in July 2009.
(2) Exercise price increases to \$ 0.55 in June 2010.

6. **STOCK-BASED COMPENSATION**

The Company has an incentive stock option plan (the "plan"). Under the plan, the Company may issue options to purchase common shares, at prices determined by the Board of Directors on the date of award, for periods of not more than five years. Stock options awarded under the plan vest immediately upon issue. The total number of common shares that may be reserved for issue under the stock option plan is limited to 10% of the number of issued common shares.

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6. **STOCK-BASED COMPENSATION** – continued

The following is a summary of stock option transactions during the years ended June 30, 2009 and 2008:

	Options outstanding	Weighted average exercise price
Outstanding, June 30, 2007	–	\$ –
Awarded	310,000	0.20
Outstanding, June 30, 2008	310,000	0.20
Awarded	790,000	0.50
Outstanding, June 30, 2009	<u>1,100,000</u>	<u>\$ 0.42</u>

The following is a summary of stock options outstanding at June 30, 2009:

Exercise price	Number of stock options outstanding	Number of stock options exercisable	Expiry dates
\$ 0.20	310,000	310,000	November 2012
\$ 0.50	<u>790,000</u>	<u>790,000</u>	September 2013
	<u>1,100,000</u>	<u>1,100,000</u>	

The fair value of stock options awarded during 2009 and 2008 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Risk-free interest rate	3.08%	4.1%
Expected volatility	80%	75%
Expected lives	5 years	5 years
Estimated forfeiture rate	–	–

The average fair value of stock options awarded during 2009 and 2008 was \$ 0.10 and \$ 0.07, respectively.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates that are based upon historical volatility rates. Changes in the underlying assumptions can materially affect the fair value estimates.

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7. FINANCIAL INSTRUMENTS

a) **Fair value**

The fair value of financial instruments at June 30, 2009 and 2008 are summarized in the following table. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

	June 30,			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
<i>Held for trading</i>				
Cash	\$ 1,427,495	\$ 1,427,495	\$ 2,404,920	\$ 2,404,920
<i>Loans and receivables</i>				
Amounts receivable	21,918	21,918	8,689	8,689
Share subscriptions receivable	445,000	445,000	–	–
Financial liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	144,429	144,429	121,294	121,294

b) **Financial risk management**

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk and foreign currency risk.

Credit risk

Credit risk arises due to the potential to one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy.

Liquidity risk

Liquidity risk arises when adequate funds cannot be raised to settle liabilities and commitments when they become payable. The Company manages its liquidity by maintaining adequate cash to meet anticipated cash needs.

Foreign currency risk

The Company is subject to foreign currency rate risk as the Company enters into transactions and has assets and liabilities denominated in a currency other than the Company's functional currency, which is the Canadian dollar.

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8. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to explore its unproven mineral interests. The Company manages the components of shareholders' equity and its cash as capital, and makes adjustments to these components in response to the Company's business objectives and the economic climate. To maintain or adjust its capital structure, the Company may attempt to issue new common shares from treasury, issue debt instruments or borrow money or acquire or dispose of other assets. The Company does not anticipate the payment of dividends in the foreseeable future.

The Company's investment policy is to hold excess cash in highly liquid, short-term instruments, such as guaranteed investment certificates issued by major Canadian chartered banks, with initial maturity terms of less than three months from the original date of acquisition, selected with regards to the Company's anticipated liquidity requirements.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions were as follows:

	<u>2009</u>	<u>2008</u>
Operating activities		
Decrease in accounts payable and accrued liabilities	\$ <u>60,822</u>	\$ <u>—</u>
Investing activities		
Expenditures on property and equipment	\$ (2,921)	\$ —
Expenditures on unproven mineral interests	(42,088)	—
Unproven mineral interest purchased through share issue	<u>(942,500)</u>	<u>—</u>
	\$ <u>(987,509)</u>	\$ <u>—</u>
Financing activities		
Common shares issued for unproven mineral interest	\$ 942,500	\$ —
Expenditures on share issue costs	<u>(15,813)</u>	<u>—</u>
	\$ <u>926,687</u>	\$ <u>—</u>
Other supplemental:		
Interest paid in cash	\$ <u>—</u>	\$ <u>—</u>
Income taxes paid	\$ <u>—</u>	\$ <u>—</u>

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10. RELATED PARTY TRANSACTIONS

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

During the year ended June 30, 2009, the Company incurred management fees of \$ 80,500 to a corporation controlled by a director, consulting fees of \$ 11,909 for accounting services to an officer and fees of \$ 97,613 for geological services to a director. At June 30, 2009, \$ 14,639 of these fees remained outstanding and are included in accounts payable and accrued liabilities and \$ 10,000 were prepaid and are included in prepaid expenses and deposits.

11. INCOME TAXES

The significant components of the Company's future income taxes are as follows as at June 30:

	<u>2009</u>	<u>2008</u>
Future income tax assets		
Benefit of loss carryforwards	\$ 121,000	\$ 44,700
Deductible share issue cost	<u>45,000</u>	<u>28,000</u>
	166,000	72,700
Less: valuation allowance	<u>(166,000)</u>	<u>(72,700)</u>
	\$ <u> -</u>	\$ <u> -</u>

The following is a reconciliation of the statutory combined federal and provincial income taxes to the effective income taxes for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Income taxes (recovery) at statutory income tax rates (2009 – 30.0%, 2008 – 31.5%)	\$ (134,000)	\$ (43,000)
Deductible share issue costs	(15,000)	(5,500)
Non-deductible stock-based compensation	24,000	7,000
Addition to loss carryforward	<u>125,000</u>	<u>41,500</u>
	\$ <u> -</u>	\$ <u> -</u>

As at June 30, 2009 the Company had loss carryforwards of approximately \$ 485,000, which expire between the 2027 and 2029 fiscal years, available to reduce future years' income taxes. The potential benefit of these loss carryforwards has not been recognized in the Company's accounts as there is no reasonable assurance such benefit will be realized.

12. CONTRIBUTED SURPLUS

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 28,253	\$ -
Fair value of warrants issued to agents	8,847	6,430
Stock-based compensation	81,278	22,723
Reclassified on exercise of agents options	<u>(1,141)</u>	<u>(900)</u>
	\$ <u>117,237</u>	\$ <u>28,253</u>

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13. SEGMENTED INFORMATION

The Company operates in a single business segment and in two geographic segments. The accounting policies for these segments are the same as those described in Note 2 to the consolidated financial statements.

Geographic distribution of operating results in the two geographic segments is as follows:

		2009		
	Canada	United States	Total	
Total assets	\$ 1,968,967	\$ 2,408,266	\$ 4,377,233	
Unproven mineral interests	-	2,394,944	2,394,944	
Net income (loss)	(281,923)	(164,981)	(446,904)	
Property and equipment additions	955	6,177	7,132	
Amortization of property and equipment	143	381	524	

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the Company:

- issued 400,000 common shares for the acquisition of the Kilgore project and 750,000 shares for the acquisition of the Blue Hill Creek project;
- issued 400,000 stock options exercisable at \$ 0.40 per share for five years;
- collected \$ 445,000 of share subscriptions receivable;
- issued 50,000 common shares for cash of \$ 10,000 on exercise of share purchase warrants;
- issued 15,000 common shares for cash of \$ 3,000 on exercise of stock options.