Otis Gold Corp.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2010 and 2009

AUDITORS' REPORT

To the Shareholders of
Otis Gold Corp.

We have audited the consolidated balance sheets of Otis Gold Corp. (An Exploration Stage Company) as at June 30, 2010 and 2009 and the consolidated statements of loss, 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, 2010 and 2009 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 27, 2010

Chartered Accountants

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

	June 30, 2010	June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 3,458,450	$ 1,427,495
Amounts receivable	7,878	42,299
Share subscriptions receivable	-	445,000
Prepaid expenses and deposits	48,504	53,361
	3,514,832	1,968,155
RECLAMATION DEPOSIT	9,119	7,526
PROPERTY AND EQUIPMENT (Note 3)	16,849	6,608
UNPROVEN MINERAL INTERESTS (Note 4)	5,054,708	2,394,944
	$ 8,595,508	$ 4,377,233
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 206,015	$ 144,429
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	9,533,962	4,705,964
CONTRIBUTED SURPLUS (Note 12)	577,453	117,237
RETAINED EARNINGS (DEFICIT)	(1,721,922)	(590,397)
	8,389,493	4,232,804
	$ 8,595,508	$ 4,377,233

SUBSEQUENT EVENTS (Note 14)

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

Approved by the Board ***"Craig T. Lindsay"*** **Director** ***"Sean Mitchell"*** **Director**

Otis Gold Corp.

(An Exploration Stage Company)
For the years ended June 30
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

		2010		2009
EXPENSES				
Consultants	$	166,491	$	128,439
Investor relations and advertising		161,178		81,657
Stock-based compensation		486,450		81,278
Office expenses		121,821		77,259
Professional fees		74,476		54,977
Regulatory costs		31,011		24,197
Travel and entertainment		88,589		27,175
Property investigations		4,958		4,083
Bank charges		2,691		3,521
Amortization		2,659		524
		(1,140,324)		(483,110)
OTHER ITEM				
Interest income		8,799		36,206
LOSS AND COMPREHENSIVE (LOSS) FOR THE YEAR		(1,131,525)		(446,904)
RETAINED EARNINGS (DEFICIT), beginning of year		(590,397)		(143,493)
RETAINED EARNINGS (DEFICIT), end of year	$	(1,721,922)	$	(590,397)
NET INCOME (LOSS) PER SHARE, basic and diluted	$	(0.05)	$	(0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		23,788,960		9,410,290

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

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

	2010	2009
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	$ (1,131,525)	$ (446,904)
Adjustments to reconcile net cash provided by operating activities		
Amortization of property and equipment	2,659	524
Stock-based compensation	486,450	81,278
Decrease (increase) in		
Amounts receivable	34,421	(33,610)
Prepaid expense	4,857	25,773
Increase (decrease) in		
Accounts payable and accrued liabilities	61,586	(37,687)
	(541,552)	(410,626)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		
Reclamation deposit	(1,593)	(7,526)
Purchase of property and equipment	(12,900)	(4,211)
Expenditures on unproven mineral interests	(1,859,264)	(1,410,356)
	(1,873,757)	(1,422,093)
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES		
Issue of common shares	4,590,030	976,550
Share issue costs paid	(143,766)	(121,256)
	4,446,264	855,294
INCREASE (DECREASE) IN CASH DURING THE YEAR	2,030,955	(977,425)
CASH, beginning of year	1,427,495	2,404,920
CASH, end of year	$ 3,458,450	$ 1,427,495

See Note 9.

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

Otis Gold Corp.

(An Exploration Stage Company)

CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS

	2010				
	Oakley Idaho	Kilgore Idaho	Buckhorn Idaho	Other	Total
BALANCE, beginning of year	$ 1,140,985	$ 1,107,410	$ 55,675	$ 90,874	$ 2,394,944
ACQUISITION COSTS	652,500	148,000	26,618	–	827,118
EXPLORATION COSTS					
Drilling and assays	–	908,872	1,345	-	910,217
Geologists and contractors	67,395	557,614	7,367	9,351	641,727
Travel	8,344	123,405	1,257	405	133,411
Mapping and surveying	283	13,231	321	–	13,835
Annual maintenance fees	283	47,121	527	5,345	53,275
Site office and field supplies	2,826	77,355	–	–	80,181
	79,131	1,727,598	10,817	15,100	1,832,646
BALANCE, end of year	$ 1,872,616	$ 2,983,008	$ 93,110	$ 105,974	$ 5,054,708

	2009				
	Oakley Idaho	Kilgore Idaho	Buckhorn Idaho	Other	Total
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	16,599	–	142,787
Annual maintenance fees	10,269	21,622	2,610	41,559	76,060
Site office and field supplies	2,193	10,178	–	105	12,476
	244,841	686,432	34,210	68,451	1,033,934
BALANCE, end of year	$ 1,140,985	$ 1,107,410	$ 55,675	$ 90,874	$ 2,394,944

1. **OPERATIONS**

Otis Gold Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on April 24, 2007. The Company's common shares are listed on the TSX Venture Exchange (the "Exchange") under the trading symbol OOO. The Company is in the business of acquiring and exploring unproven mineral interests.

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 represent costs incurred to date, 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 to obtain the necessary financing to complete development, and future profitable production from, or sale of, the interests.

The Company's ability to continue exploring its unproven mineral interests is dependent upon its ability to raise additional capital to fund its exploration expenditures as described in Note 4. Additional capital may be sought from the sale of additional common shares or other equity or debt instruments. There is no assurance such additional capital will be available to the Company on acceptable terms or at all.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meets its other obligations in the ordinary course of business or continue operations.

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 rates, 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 property and equipment. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Actual results could differ from these estimates.

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.

2. **ACCOUNTING POLICIES** – continued

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

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 included in 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 the 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.

2. **ACCOUNTING POLICIES** – continued

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, 2010 and 2009, the Company does not have any asset retirement obligations.

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

Earnings (loss) per share
Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilute effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per common share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents in reflected in diluted earnings per common share by application of the treasury stock method.

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.

2. **ACCOUNTING POLICIES** – continued

New accounting standards

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements."

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The adoption of this standard is not expected to have a material impact on the Company's financial statements.

3. **PROPERTY AND EQUIPMENT**

	2010		
	Cost	Accumulated amortization	Net
Office and field equipment	$ 15,821	$ 1,857	$ 13,964
Computer equipment	4,211	1,326	2,885
	$ 20,032	$ 3,183	$ 16,849

	2009		
	Cost	Accumulated amortization	Net
Office and field equipment	$ 2,921	$ 146	$ 2,775
Computer equipment	4,211	378	3,833
	$ 7,132	$ 524	$ 6,608

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 162 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 (issued) and US$ 250,000 of exploration expenditures (completed) by July 15, 2009;
c) Issuance of 400,000 shares (see Note 14) and US$ 350,000 of exploration expenditures (completed) by July 15, 2010;
d) Issuance of 400,000 shares and US$ 500,000 of exploration expenditures by July 15, 2011;
e) Issuance of 400,000 shares and US$ 900,000 of exploration expenditures by July 15, 2012;
f) Issuance of 400,000 shares and US$ 1,000,000 of exploration expenditures by July 15, 2013.

4. **UNPROVEN MINERAL INTERESTS** – continued

The Company can increase its interest to 75% by issuing an additional 1,000,000 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.

A 2% net smelter return royalty ("NSR") will be paid to the vendor for production of gold from the property. At any time, the Company may buy up to 1.5% of the NSR for US$ 500,000 per 0.5%.

The 500,000 common shares issued during the year ended June 30, 2009 were accounted for at their estimated fair value of $200,000, and the 400,000 common shares issued during the year ended June 30, 2010 were accounted for at their estimated fair value of $148,000.

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 (issued) to acquire an aggregate 30% interest in BHC;
b) Issue 750,000 common shares (issued) on or before January 15, 2010 to acquire an aggregate 40% interest in BHC;
c) On or before July 15, 2010, pay US$ 18,000, and issue 750,000 common shares (see Note 14) 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 2,250,000 common shares issued during the year ended June 30, 2009 were accounted for at their estimated fair value of $742,500, and the 1,500,000 common shares issued during the year ended June 30, 2010 were accounted for at their estimated fair value of $ 652,500

A 2.5% 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. US$ 2,500,000 for the entire NSR).

4. **UNPROVEN MINERAL INTERESTS** – continued

b) Cold Creek Gold
The Cold Creek 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.

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

Under the agreement with the owner, 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 (see Note 14).
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.

See Note 14.

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

5. **SHARE CAPITAL**

a) Authorized
Unlimited common shares without par value

	June 30,					
	2010			2009		
	Shares		Amount	Shares		Amount
b) Issued						
Balance, beginning of year	16,558,750	$	4,705,964	5,314,000	$	875,469
Common shares issued for						
Cash	3,744,539		2,433,950	8,477,000		3,063,000
Unproven mineral interests	1,900,000		800,500	2,750,000		942,500
Warrants exercised	4,897,150		1,704,319	17,750		4,691
Options exercised	75,000		32,995	–		–
	27,175,439		9,677,728	16,558,750		4,885,660
Less: Share issue costs paid	–		143,766	–		179,696
Balance, end of year	27,175,439	$	9,533,962	16,558,750	$	4,705,964

In conjunction with the Qualifying Transaction, in 2009 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.

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. 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.

In November 2009, the Company completed a non-brokered private placement of 3,744,539 units at a price of $ 0.65 per unit, for gross proceeds of $ 2,433,950. Each unit consisted of one common share and one half of one share purchase warrant; each full warrant is exercisable at $ 0.90 in year one and at $ 1.25 in year two. Finders' fees of $ 114,863 were paid on the private placement.

c) Pursuant to an escrow agreement, 2,520,000 common shares are being held in escrow and 840,000 will be released every six months with the next release scheduled for July 2010. The escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

c) Details of share purchase warrant transactions during the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Outstanding, beginning of year	8,672,250	86,000
Issued	1,872,270	8,604,000
Exercised	(4,897,150)	(17,750)
Expired	(100)	−
Outstanding, end of year	5,647,270	8,672,250

As at June 30, 2010, the Company has outstanding share purchase warrants as follows:

Number	Exercise price	Expiry date
3,775,000	$ 0.90	July 2010
1,872,270	0.90 (1)	November 2011
5,647,270		

(1) Exercise price increases to $1.25 in November 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.

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

The following is a summary of stock option transactions during the years ended June 30, 2010 and 2009:

	Options Outstanding		Weighted average exercise price
Outstanding, June 30, 2008	310,000	$	0.20
Awarded	790,000		0.50
Outstanding, June 30, 2009	1,100,000		0.42
Awarded	1,350,000		0.44
Exercised	(75,000)		0.27
Outstanding, June 30, 2010	2,375,000	$	0.43

The following is a summary of stock options outstanding at June 30, 2010:

Exercise price	Number of stock options outstanding	Number of stock options exercisable	Expiry dates
$ 0.20	260,000	260,000	November 2012
0.50	790,000	790,000	September 2013
0.40	375,000	375,000	August 2014
0.45	850,000	850,000	March 2015
0.50	100,000	100,000	March 2015
	2,375,000	2,375,000	

The fair value of stock options awarded during 2010 and 2009 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate:	2.43%	4.1%
Expected volatility:	89%	75%
Expected lives:	5 years	5 years
Estimated forfeiture rate:	–	–

The average fair value of stock options awarded during 2010 and 2009 was $ 0.36 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 rate that are based upon historical volatility rates. Changes in the underlying assumptions can materially affect the fair value estimates.

7. **FINANCIAL INSTRUMENTS**

a) **Fair value**

The fair value of financial instruments at June 30, 2010 and 2009 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,			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Held for trading				
Cash	$ 3,458,450	$ 3,458,450	$ 1,427,495	$ 1,427,495
Loans and receivables				
Accounts receivable	3,127	3,127	21,918	21,918
Share subscriptions receivable	-	-	445,000	445,000
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	206,015	206,015	144,429	144,429

b) **Financial risk management**

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

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.

The Company's common shares are listed on the TSX Venture Exchange ("TSX-V"). The TSX-V policies impose certain minimum capital requirements upon the Company. Management believes that the Company is in compliance with these externally imposed restrictions.

9. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions were as follows:

		2010		2009
Operating activities				
Decrease in accounts payable and accrued liabilities	$	–	$	–
Investing activities				
Expenditures on property and equipment	$	–	$	(2,921)
Expenditures on unproven mineral interests		–		(42,088)
Unproven mineral interests incurred with common shares		(800,500)		(942,500)
	$	(800,500)	$	(987,509)
Financing activities				
Common shares issued for unproven mineral interests	$	800,500	$	942,500
Expenditures on share issue costs		–		(15,813)
	$	800,500	$	926,687

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. Those transactions are made in the normal course of operations.

During the year ended June 30, 2010, the Company incurred management fees of $ 120,000 (2009 − $ 80,500) to a corporation controlled by a director and consulting fees of $ 22,250 (2009 − $ 11,909) for accounting services to an officer. Fees of $ 162,376 (2009 − $ 97,613) for geological services were paid to a former director, of which $ 156,662 was capitalized and $ 5,714 was charged to expense. At June 30, 2010, $ 13,704 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.

11. INCOME TAXES

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

	2010	2009
Future income tax assets		
Benefit of loss carryforwards	$ 281,000	$ 121,000
Deductible share issue cost	61,000	45,000
	342,000	166,000
Less: valuation allowance	(342,000)	(166,000)
	$ –	$ –

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:

	2010	2009
Income taxes (recovery) at statutory income tax rates (2010 − 28.5%, 2009 − 30.0%)	$ (183,000)	$ (134,000)
Deductible share issue costs	(23,000)	(15,000)
Non-deductible stock-based compensation	139,000	24,000
Addition to loss carryforward	67,000	125,000
	$ –	$ –

As at June 30, 2010 the Company had loss carryforwards of approximately $ 1,127,000, which expire between the 2027 and 2030 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

	2010	2009
Balance, beginning of year	$ 117,237	$ 28,253
Fair value of warrants issued to agents	–	8,847
Stock-based compensation	486,450	81,278
Reclassified on exercise of agents options	(13,239)	(1,141)
Reclassified on exercise of options	(12,995)	-
	$ 577,453	$ 117,237

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.

13. **SEGMENTED INFORMATION** − continued

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

	2010		
	Canada	United States	Total
Total assets	$ 3,509,426	$ 5,086,082	$ 8,595,508
Unproven mineral interests	−	5,054,708	5,054,708
Net income (loss)	(1,050,785)	(80,740)	(1,131,525)
Property and equipment additions	−	12,900	12,900
Amortization of property and equipment	244	2,415	2,659

	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	232	375	607

14. **SUBSEQUENT EVENTS**

Subsequent to June 30, 2010:

- The Company issued 400,000 common shares for the acquisition of the Kilgore project, 750,000 shares for the acquisition of the Blue Hill Creek project, 20,000 common shares for the acquisition of the Buckhorn project, and paid US$ 20,000 of advance royalties for the Buckhorn project and US$ 18,000 for the acquisition of the Blue Hill Creek project.

- 3,775,000 share purchase warrants expired unexercised.