

Otis Gold Corp.
(formerly Otis Capital Corp.)
(an Exploration Stage Company)

Interim Consolidated Financial Statements

For the nine months ended March 31, 2010

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Otis Gold Corp. for the nine months ended March 31, 2010 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instruments 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Otis Gold Corp.
(formerly Otis Capital Corp.)
(an Exploration Stage Company)

Interim Consolidated Balance Sheet
As at March 31, 2010 and June 30, 2009
(Unaudited - Prepared by Management)

| | March 31, 2010 | June 30, 2009 |
|--|----------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,882,011 | \$ 1,427,495 |
| Amounts receivable | 15,213 | 42,299 |
| Share subscriptions receivable | - | 445,000 |
| Prepaid expenses and deposits | 17,644 | 53,361 |
| | 3,914,868 | 1,968,155 |
| RECLAMATION DEPOSIT | 7,526 | 7,526 |
| PROPERTY AND EQUIPMENT (Note 3) | 15,601 | 6,608 |
| UNPROVEN MINERAL INTERESTS (Note 4) | 4,707,947 | 2,394,944 |
| | \$ 8,645,942 | \$ 4,377,233 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 92,646 | \$ 144,429 |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 5) | 9,514,632 | 4,705,964 |
| CONTRIBUTED SURPLUS (Note 11) | 613,263 | 117,237 |
| RETAINED EARNINGS (DEFICIT) | (1,574,599) | (590,397) |
| | 8,553,296 | 4,232,804 |
| | \$ 8,645,942 | \$ 4,377,233 |

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

Approved by the Board "raig T. Lindsay" Director "Sean Mitchell" Director

Otis Gold Corp.
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Interim Consolidated Statement of Earnings and Deficit
For the nine months ended March 31st
(Unaudited - Prepared by Management)

| | Nine months March 2010 | Nine months March 2009 | Three months March 2010 | Three months March 2009 |
|-------------------------------------|---------------------------|---------------------------|----------------------------|----------------------------|
| EXPENSES | | | | |
| Stock-based compensation | \$ 512,930 | \$ 81,278 | \$ 337,157 | \$ - |
| Management and consulting fees | 121,751 | 83,732 | 38,457 | 31,722 |
| Investor relations and advertising | 104,836 | 60,566 | 25,896 | 15,333 |
| Office expenses | 87,179 | 62,473 | 29,854 | 22,048 |
| Professional fees | 64,521 | 49,547 | 12,109 | 7,472 |
| Travel | 70,737 | 20,091 | 34,845 | 5,507 |
| Regulatory costs | 27,675 | 22,701 | 9,610 | 9,208 |
| Bank charges | 2,114 | 2,989 | 418 | 567 |
| Amortization | 1,861 | 114 | 713 | 114 |
| Property investigations | 697 | 4,083 | - | 2,900 |
| Foreign exchange loss (gain) | (2,411) | 9,258 | 13,743 | (9,296) |
| TOTAL EXPENSES | 991,890 | 396,832 | 502,802 | 85,575 |
| LOSS | (991,890) | (396,832) | (502,802) | (85,575) |
| OTHER ITEM | | | | |
| Interest income | 7,688 | 27,217 | 917 | 7,011 |
| NET LOSS FOR THE PERIOD | \$ (984,202) | \$ (369,615) | \$ (501,885) | \$ (78,564) |
| DEFICIT, beginning of period | (590,397) | (143,493) | (1,072,714) | (434,544) |
| DEFICIT, end of period | <u>\$ (1,574,599)</u> | <u>\$ (513,108)</u> | <u>\$ (1,574,599)</u> | <u>\$ (513,108)</u> |
| NET INCOME (LOSS) PER SHARE, | | | | |
| basic and diluted (Note 9) | <u>\$ (0.00)</u> | <u>\$ (0.04)</u> | <u>\$ (0.00)</u> | <u>\$ (0.01)</u> |
| WEIGHTED AVERAGE NUMBER OF | | | | |
| COMMON SHARES OUTSTANDING | <u>21,448,638</u> | <u>9,227,084</u> | <u>25,625,606</u> | <u>10,085,722</u> |

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

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Interim Consolidated Statements of Cash Flow
For the nine months ended March 31st
(Unaudited - Prepared by Management)

| | Nine months March 2010 | Nine months March 2009 | Three months March 2010 | Three months March 2009 |
|--|------------------------------|------------------------------|----------------------------|----------------------------|
| CASH FLOW FROM (USED IN) OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ (984,202) | \$ (369,615) | \$ (501,885) | \$ (78,564) |
| Adjustments to reconcile net cash provided by operating activities | | | | |
| Stock-based compensation | 512,930 | 81,278 | 337,157 | - |
| Amortization | 1,861 | 114 | 713 | 114 |
| Decrease (increase) in | | | | |
| Amounts receivable | 27,086 | (22,642) | 5,513 | (8,715) |
| Deferred financing expenses | - | 33,780 | - | - |
| Share subscriptions | 445,000 | - | - | - |
| Prepaid expense | 35,717 | 60,488 | 9,247 | (8,742) |
| Reclamation deposit | - | (7,526) | - | - |
| Increase (decrease) in | | | | |
| Accounts payable and accrued liabilities | (51,784) | (36,012) | 2,073 | (41,457) |
| | <u>(13,391)</u> | <u>(260,135)</u> | <u>(147,181)</u> | <u>(137,364)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Expenditures on unproven mineral interests | (1,512,503) | (1,154,786) | (249,743) | (151,185) |
| Acquisition of property & equipment | (10,854) | (3,051) | (1,985) | (3,051) |
| | <u>(1,523,357)</u> | <u>(1,157,837)</u> | <u>(251,728)</u> | <u>(154,236)</u> |
| CASH FLOW FROM (USED IN) FINANCING ACTIVITIES | | | | |
| Issue of common shares for cash | 4,135,030 | 242,500 | 7,000 | 5,000 |
| Share issue costs paid | (143,766) | (138,174) | (1,017) | - |
| | <u>3,991,264</u> | <u>104,326</u> | <u>5,983</u> | <u>5,000</u> |
| INCREASE IN CASH DURING THE PERIOD | 2,454,516 | (1,313,646) | (392,926) | (286,600) |
| CASH, beginning of period | <u>1,427,495</u> | <u>2,404,920</u> | <u>4,274,937</u> | <u>1,377,874</u> |
| CASH, end of period | <u>\$ 3,882,011</u> | <u>\$ 1,091,274</u> | <u>\$ 3,882,011</u> | <u>\$ 1,091,274</u> |

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

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Interim Consolidated Schedule of Unproven Mineral Interests
For the nine months ended March 31, 2010
(Unaudited - Prepared by Management)

| | Oakley Idaho | Kilgore Idaho | Buckhorn Idaho | Redcat Nevada | Total | June 30, 2009 |
|--------------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| BALANCE, June 30, 2009 | \$ 1,140,985 | \$ 1,107,410 | \$ 55,675 | \$ 90,874 | \$ 2,394,944 | \$ - |
| ACQUISITION COSTS | 652,000 | 148,000 | 26,618 | | 827,118 | 1,361,010 |
| EXPLORATION COSTS | | | | | | |
| Drilling | - | 680,907 | - | 0 | 680,907 | 196,159 |
| Assays | - | 85,904 | 1,345 | - | 87,249 | 28,301 |
| Geologists and contractors | 58,385 | 431,425 | 153 | 9,351 | 499,314 | 488,462 |
| Travel | 6,816 | 94,014 | - | 404 | 101,235 | 89,688 |
| Mapping and surveying | 283 | 9,221 | - | - | 9,504 | 142,785 |
| Annual maintenance fees | 283 | 47,121 | 527 | 5,345 | 53,275 | 76,062 |
| Site office and field supplies | 2,590 | 51,810 | - | 0 | 54,399 | 12,476 |
| | <u>68,356</u> | <u>1,400,404</u> | <u>2,025</u> | <u>15,100</u> | <u>1,485,885</u> | <u>1,033,934</u> |
| BALANCE, March 31, 2010 | <u>\$ 1,861,841</u> | <u>\$ 2,655,814</u> | <u>\$ 84,318</u> | <u>\$ 105,975</u> | <u>\$ 4,707,947</u> | <u>\$ 2,394,944</u> |

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

OTIS GOLD CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010

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.

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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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 March 31, 2010, the Company does not have any asset retirement obligations.

2. **ACCOUNTING POLICIES** – continued

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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 collected 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 adopted 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 has no effect on the Company's financial statements.

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2. **ACCOUNTING POLICIES** – continued

Future accounting standards

The Accounting standards Board (“AcSB”) of the Canadian Institute of Chartered Accountants has issued new accounting standards that the Company is required to consider for adoption, as follows:

Business combinations, consolidated financial statements and non-controlling interests

The CICA issued three new accounting standards in January 2009, Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602 *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

New Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for business combinations. It provides the equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements related to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements related to fiscal years beginning on or after January 1, 2011.

International financial reporting standards

The AcSB 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. For the Company, the transition to IFRS will result in some changes but the amounts will not be material.

3. **PROPERTY AND EQUIPMENT**

| | March 31, 2010 | | | June 30, 2009 |
|----------------------------|------------------|--------------------------|------------------|-----------------|
| | Cost | Accumulated amortization | Net | |
| Office and field equipment | \$ 13,771 | \$ 1,288 | \$ 12,483 | \$ 2,775 |
| Computer equipment | 4,211 | 1,093 | 3,118 | 3,833 |
| | <u>\$ 17,982</u> | <u>\$ 2,381</u> | <u>\$ 15,601</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:

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- a) payment of US\$ 100,000 (paid) and issuance of 500,000 common shares (issued at their estimated fair value of \$200,000) upon Exchange approval;
- b) payment of US\$ 100,000 (paid) and issuance of 400,000 common shares (issued at their estimated fair value of \$148,000) and US\$ 250,000 of exploration expenditures (completed) by July 15, 2009;
- c) issuance of 400,000 shares and US\$ 350,000 of exploration expenditures 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; and
- f) issuance of 400,000 shares and US\$ 1,000,000 of exploration expenditures by July 15, 2013.

As of March 31, 2010, the Company has incurred US\$ \$1,879,323 on qualifying exploration expenditures.

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.

Oakley Project – The Oakley Project consists of 2 properties – Blue Hill Creek and Cold Creek, 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\$130,000 and has issued 3,000,000 common shares (at their estimated fair value of \$1,020,000) to acquire an undivided 30% interest in BHC. To maintain its option the Company shall do the following:

- a) issue 750,000 common shares (issued at their estimated fair value of \$375,000) to acquire an aggregate 40% interest;
- b) on or before July 15, 2010, pay US\$ 60,000 and issue 750,000 common shares to acquire an aggregate 50% interest;
- c) issue 750,000 common shares on or before January 15, 2011 to acquire an aggregate 60% interest;
- d) on or before July 15, 2011, pay US\$ 70,000 and issue 750,000 common shares to acquire an aggregate 70% interest;
- e) on or before July 15, 2012, pay US\$ 80,000 to acquire an aggregate 85% interest; and
- f) on or before July 15, 2013, pay US\$ 100,000 to acquire an aggregate 100% interest.

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.

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).

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4. **UNPROVEN MINERAL INTERESTS** - continued

b) **Cold Creek**

The Cold Creek property, located in Cassia County, Idaho, consists of 53 unpatented federal lode mining claims. The Company acquired a 100% ownership interest in 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 (pending), 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; and
- 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 3% if silver trades at a price of less than US\$ 20 per troy ounce, or 4% if silver trades at a price of greater than US\$ 20 per troy ounce.

Redcat Property

The Redcat Property, located in Jackson, Nevada, consists of 130 claims; Otis has a 100% interest in these claims.

5. **SHARE CAPITAL**

a) Authorized

Unlimited common shares without par value

| | Periods ended | | | |
|---|-------------------|---------------------|-------------------|---------------------|
| | March 31, 2010 | | June 30, 2009 | |
| | Shares | Amount | Shares | Amount |
| Issued | | | | |
| Balance, beginning of period | 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 |
| Common shares issued for unproven mineral interests | 1,900,000 | 800,500 | 2,750,000 | 942,500 |
| Warrants exercised | 4,702,000 | 1,645,700 | | |
| Brokers' Warrants exercised | 195,150 | 58,619 | 17,750 | 4,691 |
| Options exercised | 50,000 | 13,665 | - | - |
| | 27,150,439 | 9,658,398 | 16,558,750 | 4,885,660 |
| Less: Share issue costs paid | - | 143,766 | - | 179,696 |
| Balance, end of period | <u>27,150,439</u> | <u>\$ 9,514,632</u> | <u>16,558,750</u> | <u>\$ 4,705,964</u> |

- b) 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 received in July 2009. Each

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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; under a forced exercise provision in the warrants, all of the warrants were exercised at \$0.35 in the 3 months ending December 31, 2009. Finder's fees of \$ 10,000 cash were paid and 127,000 share purchase warrants were issued, exercisable at \$ 0.25 for eighteen months; these warrants were also exercised in the 3 months ending December 31, 2009. The share purchase warrants were accounted for at their estimated fair value, determined using the Black-Scholes option pricing model of \$ 8,847.

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, 945,000 common shares are being held in escrow and 315,000 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.
- d) Details of share purchase warrant transactions during the periods ended March 31, 2010 and June 30, 2009 are as follows:

| | Nine months ended March 31, 2010 | Year ended June 30, 2009 |
|----------------------------------|-------------------------------------|-----------------------------|
| Outstanding, beginning of period | 8,662,250 | 86,000 |
| Issued | 1,872,270 | 8,594,000 |
| Exercised | (4,817,150) | (17,750) |
| Expired | (80,100) | - |
| Outstanding, end of period | <u>5,637,270</u> | <u>8,662,250</u> |

As at March 31, 2010, the Company has outstanding share purchase warrants as follows:

| Number | Exercise price | Expiry date |
|------------------|-------------------|----------------|
| 3,765,000 | \$ 0.90 | July 2010 |
| <u>1,872,270</u> | 0.90 | November 2011 |
| <u>5,637,270</u> | | |

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 the stock option transactions during the periods ended March 31, 2010 and June 30, 2009:

| | Options Outstanding | | Weighted average exercise price |
|----------------------------|------------------------|----|------------------------------------|
| Outstanding, June 30, 2009 | 1,100,000 | \$ | 0.42 |
| Awarded | 1,400,000 | | 0.44 |
| Exercised | <u>(50,000)</u> | | <u>0.20</u> |
| Balance, March 31, 2010 | <u>2,450,000</u> | \$ | <u>0.43</u> |

The following is a summary of stock options outstanding at March 31, 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 | 400,000 | 400,000 | August 2014 |
| 0.50 | 50,000 | 50,000 | October 2014 |
| 0.45 | <u>950,000</u> | <u>950,000</u> | March 23, 2015 |
| | <u>2,450,000</u> | <u>2,450,000</u> | |

The fair value of stock-based compensation awarded was estimated using the Black-Scholes option pricing model with the following assumptions:

| | 9 months ended March 31, 2010 | Year ended June 30, 2009 |
|---------------------------|----------------------------------|-----------------------------|
| Risk-free interest rate: | 2.43% | 3.08% |
| Expected volatility | 89% | 80% |
| Expected lives: | 5 years | 5 years |
| Estimated Forfeiture rate | - | - |

The average fair value of stock options awarded during the year ended June 30, 2009 was \$0.10 and during the nine months ended March 31, 2010 was \$0.37.

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.

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7. FINANCIAL INSTRUMENTS

a) **Fair value**

The fair value of financial instruments at March 31, 2010 and June 30, 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.

| | March 31, 2010 | | June 30, 2009 | |
|--|----------------|--------------|----------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | |
| <i>Held for trading</i> | | | | |
| Cash | \$ 3,882,011 | \$ 3,882,011 | \$ 1,427,495 | \$ 1,427,495 |
| <i>Loans and receivables</i> | | | | |
| Accounts receivable | 15,213 | 15,213 | 21,918 | 21,918 |
| Share subscriptions receivable | - | - | 445,000 | 445,000 |
| Financial liabilities | | | | |
| <i>Other financial liabilities</i> | | | | |
| Accounts payable and accrued liabilities | 92,645 | 92,645 | 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.

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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. RELATED PARTY TRANSACTIONS

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

During the nine months ended March 31, 2010, the Company incurred management fees of \$90,000 (2009: \$61,000) to a corporation controlled by a director and consulting fees of \$16,825 (2009: \$9,449) for accounting services to an officer. At March 31, 2010, \$1,375 (2009: \$8,432) of these fees remained outstanding and are included in accounts payable and accrued liabilities, and \$10,000 (2009: \$10,000) were prepaid and are included in prepaid expenses.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions were as follows:

| | <u>March 31, 2010</u> | <u>June 30, 2009</u> |
|---|-----------------------|----------------------|
| Financing activities | | |
| Common shares issued for unproven mineral interests | \$ <u>800,500</u> | \$ <u>942,500</u> |
| Investing activities | | |
| Unproven mineral interest purchased through share issue | \$ <u>(800,500)</u> | \$ <u>(942,500)</u> |

11. CONTRIBUTED SURPLUS

| | <u>March, 2010</u> | <u>June, 2009</u> |
|--|--------------------|-------------------|
| Balance, beginning of period | \$ 117,237 | \$ 28,253 |
| Fair value of stock-based compensation | 512,930 | 90,125 |
| Reclassified on exercise of options | (3,665) | - |
| Reclassified on exercise of agents options | <u>(13,239)</u> | <u>(1,141)</u> |
| | \$ <u>613,263</u> | \$ <u>117,237</u> |

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12. **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:

| | March 31, 2010 | | |
|--|----------------|---------------|--------------|
| | Canada | United States | Total |
| Total assets | \$ 3,910,791 | \$ 4,735,151 | \$ 8,645,942 |
| Unproven mineral interests | - | 4,707,947 | 4,707,947 |
| Net income (loss) | (933,448) | (50,754) | (984,202) |
| Property and equipment additions | - | 10,854 | 10,854 |
| Amortization of property and equipment | 183 | 1,678 | 1,861 |
| | March 31, 2009 | | |
| | Canada | United States | Total |
| Total assets | \$ 1,141,022 | \$ 2,107,978 | \$ 3,249,000 |
| Unproven mineral interests | - | 2,097,286 | 2,097,286 |
| Net income (loss) | (329,935) | (39,680) | (369,613) |
| Property and equipment additions | - | 3,051 | 3,051 |
| Amortization of property and equipment | - | 114 | 114 |