

# **Otis Gold Corp.**

(an Exploration Stage Company)

## ***Interim Consolidated Financial Statements***

**For the three months ended September 30, 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 three months ended September 30, 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.

(an Exploration Stage Company)

## Interim Consolidated Balance Sheet As at September 30, 2010 and June 30, 2010 (Unaudited - Prepared by Management)

	<u>September 30, 2010</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,644,767	\$ 3,458,450
Amounts receivable	16,433	7,878
Prepaid expenses and deposits	<u>37,426</u>	<u>48,504</u>
	1,698,626	3,514,832
RECLAMATION DEPOSIT	11,924	9,119
PROPERTY AND EQUIPMENT (Note 3)	17,457	16,849
UNPROVEN MINERAL INTERESTS (Note 4)	<u>6,888,027</u>	<u>5,054,708</u>
	<u>\$ 8,616,034</u>	<u>\$ 8,595,508</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>\$ 79,009</u>	<u>\$ 206,015</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 5)	9,978,150	9,533,962
CONTRIBUTED SURPLUS (Note 11)	683,848	577,453
RETAINED EARNINGS (DEFICIT)	<u>(2,124,973)</u>	<u>(1,721,922)</u>
	<u>8,537,025</u>	<u>8,389,493</u>
	<u>\$ 8,616,034</u>	<u>\$ 8,595,508</u>

*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)

## Interim Consolidated Statement of Earnings and Deficit For the three months ended September 30<sup>th</sup> (Unaudited - Prepared by Management)

	2010	2009
<b>EXPENSES</b>		
Stock-based compensation	\$ 110,127	\$ 149,293
Management fees	35,887	44,066
Investor relations	66,411	37,252
Office expenses	29,672	27,599
Travel	12,970	21,566
Professional fees	15,008	20,539
Regulatory costs	3,635	4,214
Bank charges	586	753
Property investigations	-	710
Amortization	856	584
Foreign exchange loss (gain)	8,850	(999)
<b>TOTAL EXPENSES</b>	<b>284,003</b>	<b>305,577</b>
<b>INCOME (LOSS)</b>	<b>(284,003)</b>	<b>(305,577)</b>
<b>OTHER ITEMS</b>		
Unproven mineral interests written off	(121,274)	-
Interest income	2,226	4,858
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(403,051)</b>	<b>(300,719)</b>
<b>RETAINED EARNINGS (DEFICIT), beginning of period</b>	<b>(1,721,922)</b>	<b>(590,397)</b>
<b>RETAINED EARNINGS (DEFICIT), end of period</b>	<b>\$ (2,124,973)</b>	<b>\$ (891,116)</b>
<b>NET INCOME (LOSS) PER SHARE,</b>		
basic and diluted (Note 9)	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON</b>		
<b>SHARES OUTSTANDING</b>	<b>27,218,917</b>	<b>15,990,272</b>

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

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

Interim Consolidated Statements of Cash Flow  
For the three months ended September 30<sup>th</sup>  
(Unaudited - Prepared by Management)

	2010	2009
<b>CASH FLOW FROM (USED IN) OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ (403,051)	\$ (300,719)
Adjustments to reconcile net cash provided by operating activities		
Stock-based compensation	110,127	149,293
Amortization	856	584
Unproven mineral interests written off	121,274	-
Decrease (increase) in		
Amounts receivable	(8,555)	27,809
Share subscriptions receivable	-	445,000
Prepaid expense	11,078	(8,860)
Increase (decrease) in		
Accounts payable and accrued liabilities	(127,005)	25,590
	(295,276)	338,697
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Reclamation deposit	(2,805)	-
Expenditures on unproven mineral interests	(1,517,594)	(592,647)
Acquisition of property and equipment	(1,464)	(8,869)
	(1,521,863)	(601,516)
<b>CASH FLOW FROM (USED IN) FINANCING ACTIVITIES</b>		
Issue of common shares	4,000	13,000
Share issue costs paid	(544)	(3,536)
	3,456	9,464
<b>DECREASE IN CASH DURING THE PERIOD</b>	(1,813,683)	(253,355)
CASH, beginning of period	3,458,450	1,427,495
CASH, end of period	\$ 1,644,767	\$ 1,174,140

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



**Otis Gold Corp.**  
(an Exploration Stage Company)

Interim Consolidated Schedule of Unproven Mineral Interests  
For the three months ended September 30<sup>th</sup>  
(Unaudited - Prepared by Management)

	Oakley Idaho	Kilgore Idaho	Buckhorn Idaho	Red Nevada	Total	June 30, 2010
BALANCE, June 30, 2010	\$ 1,872,616	\$ 2,983,008	\$ 93,110	\$ 105,974	\$ 5,054,708	\$ 2,394,944
ACQUISITION COSTS	304,260	152,000	-	-	456,260	827,118
EXPLORATION COSTS						
Drilling and assays	-	1,104,485	-	0	1,104,485	910,217
Geologists & subcontractors	3,928	232,501	2,128	546	239,103	641,727
Travel	1,595	55,874	-	-	57,469	133,411
Mapping and surveying	-	-	-	-	-	13,835
Annual maintenance fees	4,974	26,384	25,981	14,754	72,093	53,275
Site office and field supplies	-	23,899	37	0	23,936	80,181
	10,498	1,443,144	28,145	15,300	1,498,333	1,832,646
Amounts written off				(121,274)	(121,274)	
BALANCE, Sept. 30, 2010	\$ 2,187,374	\$ 4,579,399	\$ 121,255	\$ -	\$ 6,888,027	\$ 5,054,708

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

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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**1. OPERATIONS**

Otis Gold 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.

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 meet 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, 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. 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.



**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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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 and electronic equipment	– 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 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.

2. **ACCOUNTING POLICIES** – continued

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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**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 September 30, 2010, the Company does not have any asset retirement obligations.

**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.

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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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. <b>PROPERTY AND EQUIPMENT</b>	September 30, 2010		June 30, 2010	
	Cost	Accumulated amortization	Net	
Office and field equipment	\$ 17,283	\$ 2,547	\$ 14,736	\$ 13,964
Computer equipment	4,211	1,490	2,721	2,885
	<u>\$ 21,494</u>	<u>\$ 4,037</u>	<u>\$ 17,457</u>	<u>\$ 16,849</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 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 (issued) 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 (completed) by July 15, 2011;
- e) issuance of 400,000 shares and US\$ 900,000 (completed) of exploration expenditures by July 15, 2012; and
- f) issuance of 400,000 shares and US\$ 1,000,000 of exploration expenditures (completed) by July 15, 2013.

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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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, the 400,000 common shares issued during the year ended June 30, 2010 were accounted for at their estimated fair value of \$148,000, and the 400,000 common shares issued during the three months ended September 30, 2010 were accounted for at their estimated fair value of \$52,000.

**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) on or before January 15, 2010 to acquire an aggregate 30% interest;
- b) issue 750,000 common shares (issued) on or before January 15, 2010 to acquire an aggregate 40% interest;
- c) on or before July 15, 2010, pay US\$ 18,000 (paid) and issue 750,000 common shares (issued) to acquire an aggregate 50% interest;
- d) issue 750,000 common shares on or before January 15, 2011 to acquire an aggregate 60% interest;
- e) on or before July 15, 2011, pay US\$ 70,000 and issue 750,000 common shares to acquire an aggregate 70% interest;
- f) on or before July 15, 2012, pay US\$ 80,000 to acquire an aggregate 85% interest; and
- g) 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.

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, 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, and the 750,000 common shares issued during the three months ended September 30, 2010 were accounted for at their estimated fair value of \$ 285,000.

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

**4. UNPROVEN MINERAL INTERESTS – continued**

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 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 Silver 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 (see Note 13):

- 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 (paid) 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 either 3% or 4% if silver trades at a price of greater than US\$ 20 per troy ounce.

**Other properties**

During the three months ended September 30, 2010, the Company abandoned its interest in the Red Property in Nevada and wrote off its costs of \$121,274. The Company has other early stage exploration projects located in Idaho.

**5. SHARE CAPITAL**

a) Authorized

Unlimited common shares without par value

	Three months ended September 30, 2009		Twelve months ended June 30, 2010	
	Shares	Amount	Shares	Amount
Issued				
Balance, beginning of period	27,175,439	\$ 9,533,962	16,558,750	\$ 4,705,964
Common shares issued for cash	-	-	3,744,539	2,433,950
Common shares issued for unproven mineral interests	1,150,000	437,000	1,900,000	800,500
Warrants exercised	-	-	4,897,150	1,704,319
Options exercised	10,000	7,732	75,000	32,995
	28,335,439	9,978,694	27,175,439	9,677,728
Less: Share issue costs paid	-	544	-	143,766
Balance, end of period	<u>28,335,439</u>	<u>\$ 9,978,150</u>	<u>27,175,439</u>	<u>\$ 9,533,962</u>

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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5. **SHARE CAPITAL** – continued

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 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, 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, 1,680,000 common shares are being held in escrow and 840,000 will be released every six months with the next release scheduled for January 2011. 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 September 30, 2010 and June 30, 2010 are as follows:

	Three months ended Sept. 30, 2010	Year ended June 30, 2010
Outstanding, beginning of period	5,647,270	8,672,250
Issued	-	1,872,270
Exercised	(3,775,000)	(4,897,150)
Expired		(100)
Outstanding, end of period	<u>1,872,270</u>	<u>5,647,270</u>

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

<u>Number</u>	<u>Exercise price</u>	<u>Expiry date</u>
1,872,270	\$ 0.90 <sup>(1)</sup>	November 2011

(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.

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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

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

	Options Outstanding	Weighted average exercise price
Outstanding, June 30, 2009	1,100,000	\$ 0.42
Awarded	1,350,000	0.44
Exercised	<u>(75,000)</u>	<u>0.27</u>
Outstanding, June 30, 2010	2,375,000	0.43
Awarded	375,000	0.51
Exercised	<u>(10,000)</u>	<u>0.40</u>
Balance, September 30, 2010	<u>2,740,000</u>	<u>\$ 0.44</u>

The following is a summary of stock options outstanding at September 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	365,000	365,000	August 2014
\$ 0.45	850,000	850,000	March 2015
\$ 0.50	100,000	100,000	March 2015
\$ 0.50	25,000	25,000	August 2015
\$ 0.52	200,000	200,000	September 2012
\$ 0.50	<u>150,000</u>	<u>150,000</u>	September 2012
	<u>2,740,000</u>	<u>2,740,000</u>	

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

	Three months ended September 30, 2010	Year ended June 30, 2010
Risk-free interest rate:	1.46%	2.43%
Expected volatility	82%	89%
Expected lives:	2 years	5 years
Estimated Forfeiture rate	-	-

The average fair value of stock options awarded during the year ended June 30, 2010 was \$0.36 and during the three months ended September 30, 2010 was \$0.30.

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.

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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**7. FINANCIAL INSTRUMENTS**

a) **Fair value**

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

	September 30, 2010		June 30, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
<i>Held for trading</i>				
Cash	\$ 1,644,767	\$ 1,644,767	\$ 3,458,450	\$ 3,458,450
<i>Loans and receivables</i>				
Accounts receivable	16,433	16,433	7,878	7,878
Financial liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	79,009	79,009	206,015	206,015

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.

**8. MANAGEMENT OF CAPITAL**



**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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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. 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 three months ended September 30, 2010, the Company incurred management fees of \$30,000 (2009: \$30,000) to a corporation controlled by a director and consulting fees of \$8,275 (2009: \$4,900) for accounting services to an officer. At September 30, 2010, \$Nil (2009: \$12,917) 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>Three months ended September 30, 2010</u>	<u>Year ended June 30, 2010</u>
Financing activities		
Common shares issued for unproven mineral interests	\$ <u>437,000</u>	\$ <u>800,500</u>
Investing activities		
Unproven mineral interest purchased through share issue	\$ <u>(437,000)</u>	\$ <u>(800,500)</u>

**11. CONTRIBUTED SURPLUS**

	<u>September, 2010</u>	<u>June, 2010</u>
Balance, beginning of period	\$ 577,453	\$ 117,237
Fair value of stock-based compensation	110,127	486,450
Reclassified on exercise of options	(3,732)	(12,995)
Reclassified on exercise of agents options	<u>-</u>	<u>(13,239)</u>
	\$ <u>683,848</u>	\$ <u>577,453</u>

**12. SEGMENTED INFORMATION**

**OTIS GOLD CORP.**  
**(An Exploration Stage Company)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2010**

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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:

	September 30, 2010		
	Canada	United States	Total
Total assets	\$ 1,694,098	\$ 7,043,210	\$ 8,737,308
Unproven mineral interests	-	7,009,301	7,009,301
Net income (loss)	(375,879)	(27,172)	(403,051)
Property and equipment additions	-	1,464	1,464
Amortization of property and equipment	43	813	856
	September 30, 2009		
	Canada	United States	Total
Total assets	\$ 1,211,186	\$ 3,475,175	\$ 4,686,361
Unproven mineral interests	-	3,413,091	3,413,091
Net income (loss)	(340,397)	39,677	(300,720)
Property and equipment additions	-	8,869	8,869
Amortization of property and equipment	61	523	584

**13. SUBSEQUENT EVENTS**

Subsequent to September 30, 2010, the Company

- a) raised a total of \$2,491,500 by issuing 4,530,000 units ("Units") to qualified investors at a price of \$0.55 per Unit. Each Unit consists of one common share (a "Share") and one warrant which may be exercised to purchase one additional Share at a price of \$0.80 for 18-months from closing;
- b) revised its agreement with the Owner of the Buckhorn Silver Property, allowing Otis to earn a 100% interest in the Buckhorn by way of a \$36,000 cash payment (paid), issuance of 100,000 shares to the Vendor upon TSXV approval (pending) and a requirement of \$110,000 in property expenditures by July 2011. Additional terms include paying the Owner an Advanced Minimum Royalty ("AMR") of \$25,000 in 2011, \$30,000 per year thereafter, and a 3.5% NSR should the property go to production.