OTIS

GOLD CORP

(an Exploration Stage Company)

Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Otis Gold Corp.

We have audited the accompanying consolidated financial statements of Otis Gold Corp., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, the consolidated statements of loss, comprehensive loss and deficit and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Otis Gold Corp. as at June 30, 2011, and 2010, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

"D&H Group LLP"

Vancouver, B.C.
October 24, 2011

Chartered Accountants

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

	June 30, 2011	June 30, 2010
ASSETS		
CURRENT ASSETS		
Cash	$ 4,596,565	$ 3,458,450
Amounts receivable	37,803	7,878
Prepaid expenses and deposits	65,659	48,504
	4,700,027	3,514,832
RECLAMATION DEPOSITS	19,219	9,119
PROPERTY AND EQUIPMENT (Note 3)	47,978	16,849
UNPROVEN MINERAL INTERESTS (Note 4)	12,020,083	5,054,708
	$ 16,787,307	$ 8,595,508
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 194,120	$ 206,015
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	18,724,504	9,533,962
CONTRIBUTED SURPLUS (Note 12)	1,028,941	577,453
RETAINED EARNINGS (DEFICIT)	(3,160,258)	(1,721,922)
	16,593,187	8,389,493
	$ 16,787,307	$ 8,595,508

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, 2011 and 2010
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

		2011		2010
EXPENSES				
Stock-based compensation	$	481,932	$	486,450
Investor relations and advertising		288,424		161,178
Consultants		175,607		166,491
Office expenses		152,331		121,821
Professional fees		92,365		74,476
Travel and entertainment		88,337		88,589
Regulatory costs		46,613		31,011
Property investigations		9,942		4,958
Amortization of property and equipment		8,462		2,659
Bank charges		2,845		2,691
		(1,346,858)		(1,140,324)
OTHER ITEMS				
Interest income		29,796		8,799
Write off of unproven mineral interests (Note 4)		(121,274)		-
		(91,478)		8,799
NET INCOME (LOSS) AND NET COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		(1,438,336)		(1,131,525)
RETAINED EARNINGS (DEFICIT), beginning of year		(1,721,922)		(590,397)
RETAINED EARNINGS (DEFICIT), end of year	$	(3,160,258)	$	(1,721,922)
EARNINGS (LOSS) PER SHARE, basic and diluted	$	(0.04)	$	(0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		35,084,550		23,788,960

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

Otis Gold Corp.
(An Exploration Stage Company)
For the years ended June 30, 2011 and 2010
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the year	$ (1,438,336)	$ (1,131,525)
Adjustments to reconcile net cash provided by operating activities		
Amortization of property and equipment	8,462	2,659
Stock-based compensation	481,932	486,450
Unproven mineral interests written off	121,274	-
Decrease (increase) in		
Amounts receivable	(29,925)	34,421
Prepaid expenses and deposits	(17,155)	4,857
Increase (decrease) in		
Accounts payable and accrued liabilities	(11,895)	61,586
	(885,643)	(541,552)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Reclamation deposits	(10,100)	(1,593)
Purchase of property and equipment	(39,591)	(12,900)
Expenditures on unproven mineral interests	(4,395,649)	(1,859,264)
	(4,445,340)	(1,873,757)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issue of common shares	6,900,840	4,590,030
Share issue costs paid	(431,742)	(143,766)
	6,469,098	4,446,264
INCREASE IN CASH DURING THE YEAR	1,138,115	2,030,955
CASH, beginning of year	3,458,450	1,427,495
CASH, end of year	$ 4,596,565	$ 3,458,450

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

2011

	Oakley Idaho	Kilgore Idaho	Buckhorn Idaho	Other	Total
BALANCE, beginning of year	$ 1,872,616	$ 2,983,008	$ 93,110	$ 105,974	$ 5,054,708
ACQUISITION COSTS	1,243,210	2,949,275	93,652	-	4,286,137
EXPLORATION COSTS					
Drilling and assays	-	1,610,646	81,729	-	1,692,375
Geologists and contractors	14,054	684,525	49,413	546	748,538
Travel	1,595	141,571	7,497	-	150,663
Environmental studies	-	53,269	-	-	53,269
Mapping and surveying	-	11,217	-	-	11,217
Annual maintenance fees	5,137	26,581	-	14,754	46,472
Site office and field supplies	101	97,840	37	-	97,978
	20,887	2,625,649	138,676	15,300	2,800,512
Amounts written off	-	-	-	(121,274)	(121,274)
BALANCE, end of year	$ 3,136,713	$ 8,557,932	$ 325,438	$ -	$ 12,020,083

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	404	133,410
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

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 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 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 meet its other obligations in the ordinary course of business or continue operations.

2. **ACCOUNTING POLICIES**

Basis of presentation
The financial statements have been prepared in accordance with Canadian GAAP 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
The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of commitments and contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period.

Significant estimates made by management include useful lives for amortization of property and equipment, the provision for future income tax recoveries and composition of future income tax assets and future income tax liabilities, recoverability of amounts capitalized to unproven mineral interests and property and equipment, asset retirement obligations and stock-based compensation.

2. **ACCOUNTING POLICIES** – continued

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

Unproven mineral interests
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. 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.

The recoverability of the carrying amounts of the unproven mineral interests is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest, future profitable production and the ability of the Company and its optionees to obtain the necessary financing to complete development.

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 or disposes of 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 or received. Amounts received under option agreements reduce the carrying amount of the unproven mineral interests under option.

Under option agreements, the optionor may terminate the Company's option for failure to make any of the required payments, share issuances and exploration expenditures, or for failure to deliver the final feasibility study as defined in the option agreement. In that event, the Company would lose its interest in the option agreement. The Company has no right to recover any amounts paid or common shares issued under any terminated option agreement.

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.

2. **ACCOUNTING POLICIES** – continued

Foreign currency transactions
Monetary assets and monetary liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and non-monetary liabilities are translated into Canadian dollars at historical rates. Revenues and expenses are translated into Canadian dollars at rates approximating the exchange rate at the transaction dates. Foreign currency transaction gains and losses are included in earnings.

Income taxes
Income taxes are accounted for using a liability method of income tax allocations. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using substantively enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change is substantively enacted. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

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 dilutive 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 is reflected in diluted earnings per common share by application of the treasury stock method.

Asset retirement obligations
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 flows. As at June 30, 2011 the Company does not have any asset retirement obligations.

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 flows 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.

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

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 is charged to earnings as awards vest, with offsetting amounts recognized as contributed surplus.

2. **ACCOUNTING POLICIES** – continued

Financial instruments
CICA Section 3855 requires that all financial assets initially measured at fair value, except those classified as held to maturity, and loans and receivables, must be subsequently measured at fair value. All financial liabilities must be subsequently measured at fair value when they are classified as held-for-trading; otherwise, they are measures at amortized cost. Financial assets classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. When a decline in the fair value of a financial asset is determined to be other-than-temporary, the cumulative loss is recognized in net income. Those instruments classified as held-for-trading, have gains or losses included in earnings in the period in which they arise.

Cash has been designated as “held-for-trading”. Amounts receivable are designated as “Loans and Receivables”. Accounts payable and accrued liabilities are designated as “Other Financial Liabilities”.

Amended CICA section 3862 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data.

The Company’s financial instruments consist of cash, amounts receivable and accounts payable and accrued liabilities. Pursuant to CICA Handbook 3862, fair value of assets and liabilities measured on a recurring basis includes cash determined by Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all receivables and payables approximate their current fair values because of their nature and respective maturity dates or durations.

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. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning 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 relating 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 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. **PROPERTY AND EQUIPMENT**

	2011		
	Cost	Accumulated amortization	Net
Office and field equipment	$ 29,853	$ 5,765	$ 24,088
Computer equipment	29,678	5,788	23,890
	$ 59,531	$ 11,553	$ 47,978

	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

4. **UNPROVEN MINERAL INTERESTS**

Kilgore Gold Project
In July 2008, the Company entered into a joint venture whereby it could earn up to a 75% interest in the Kilgore Gold Project located in Clark County, Idaho and the Hai and Gold Bug properties located in Lemhi County, Idaho. The Kilgore property is covered by 162 federal lode mining claims and the Hai and Gold Bug properties are covered by 19 federal lode mining claims. During the year ended June 30, 2011, the Company issued 400,000 common shares and incurred US$ 2,570,247 of exploration expenditures.

Up to December 2010 and under the joint venture, the Company had paid a total of US$ 200,000, issued 1,300,000 common shares and completed over US$ 3,000,000 in exploration expenditures. In December 2010, the Company entered into an option agreement to acquire a 100% interest in the Kilgore Gold Project, replacing all future requirements of the joint venture and eliminating a 2% NSR in favour of the vendor. The Company issued 2 million shares (accounted for at their estimated fair value of $ 1,320,000), paid US$ 750,000 in January 2011, US$ 750,000 in April 2011, and must pay US$ 250,000 in November 2011.

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 property located in Cassia County, Idaho; the property consists of 18 unpatented federal lode mining claims and an adjacent 80 acre Idaho State lease.

During the year ended June 30, 2011, the Company paid a total of US$ 88,000, issued 2,250,00 common shares, and incurred US$ 20,574 of exploration costs. Up to June 30, 2011, the Company has paid a total of US$ 218,000 and has issued 6,000,000 common shares to acquire an undivided 70% interest in BHC. In order to acquire an undivided 100% interest, the Company shall do the following:

a) On or before July 15, 2012, pay US$ 80,000 to acquire an aggregate 85% interest in BHC; and
b) On or before July 15, 2013, pay US$ 100,000 to acquire an aggregate 100% interest in BHC.

4. **UNPROVEN MINERAL INTERESTS** – continued

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

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 2,250,000 common shares issued during the year ended June 30, 2011 were accounted for at their estimated fair value of $ 1,155,000.

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 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 may earn a 100% interest by paying US$ 36,000 (paid), issuing 100,000 shares (issued and valued at $ 64,000), and incurring US$ 110,000 of exploration expenditures by July 31, 2011 (incurred). In addition, the Company must pay the owner an Advanced Minimum Royalty (“AMR”) of US$ 25,000 in 2011, US$ 30,000 per year thereafter, and a 3.5% Net Smelter Royalty if the property goes into production. During the year ended June 30, 2011, the Company paid US$ 25,000, issued 100,000 common shares, and incurred US$ 137,320 of exploration expenditures on the Buckhorn property.

See Note 14.

Other properties

During the year ended June 30, 2011, the Company abandoned its interest in the Red Jackson Property in Nevada and wrote off its costs of $ 121,274. The Company has two other early stage exploration projects located in Idaho.

5. **SHARE CAPITAL**

a) Authorized

Unlimited common shares without par value

	June 30,					
	2011			2010		
	Shares		Amount	Shares		Amount
b) Issued						
Balance, beginning of year	27,175,439	$	9,533,962	16,558,750	$	4,705,964
Common shares issued for						
Cash	10,769,843		6,790,389	3,744,539		2,433,950
Unproven mineral interests	4,750,000		2,691,000	1,900,000		800,500
Warrants exercised	-		-	4,897,150		1,704,319
Options exercised	241,000		176,554	75,000		32,995
	42,936,282		19,191,905	27,175,439		9,677,728
Less: Share issue costs paid	–		467,401	–		143,766
Balance, end of year	42,936,282	$	18,724,504	27,175,439	$	9,533,962

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.

In November 2010, the Company completed the first tranche of a non-brokered private placement of 4,530,000 units at $ 0.55 for gross proceeds of $ 2,491,500. Each unit consists of one common share and one share purchase warrant exercisable at $ 0.80 for 18 months. In March 2011, the Company completed the second tranche of $ 253,000 for an additional 460,000 units on the same terms. Finders' fees of $ 148,296 were paid on the private placement.

In February 2011, the Company completed a non-brokered private placement of 5,779,843 units at $ 0.70 for gross proceeds of $ 4,045,890. Each unit consists of one common share and one-half a share purchase warrant exercisable at $ 1.10 for 18 months. Finder's fees of $ 209,985 were paid and 131,186 finder's warrants were issued, exercisable at $ 1.10 for 18 months.

c) Pursuant to an escrow agreement, 2,090,000 common shares are being held in escrow with the final release scheduled for July 2011.

d) Details of share purchase warrant transactions during the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Outstanding, beginning of year	5,647,270	8,672,250
Issued	8,011,108	1,872,270
Exercised	-	(4,897,150)
Expired	(3,775,000)	(100)
Outstanding, end of year	9,883,378	5,647,270

5. **SHARE CAPITAL** – continued

As at June 30, 2011, the Company has outstanding share purchase warrants as follows:

Number	Exercise price	Expiry date
1,872,270	$ 1.25	November 2011
4,990,000	0.80	April 2012
3,021,108	1.10	August 2012
9,883,378		

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.

The following is a summary of stock option transactions during the years ended June 30, 2011 and 2010:

	Options Outstanding	Weighted average exercise price
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
Awarded	1,250,000	0.63
Exercised	(241,000)	0.46
Expired	(49,000)	0.45
Balance, June 30, 2011	3,335,000	$ 0.58

The following is a summary of stock options outstanding at June 30, 2011:

Exercise price	Number of stock options outstanding	Number of stock options exercisable	Expiry dates
$ 0.20	260,000	260,000	November 2012
0.50	710,000	710,000	September 2013
0.40	335,000	335,000	August 2014
0.45	680,000	680,000	March 2015
0.50	100,000	100,000	March 2015
0.50	25,000	25,000	August 2015
0.52	200,000	150,000	September 2012
0.50	150,000	150,000	September 2012
0.52	25,000	25,000	December 2015
0.70	800,000	800,000	February 2016
0.50	50,000	50,000	June 2016
	3,335,000	3,285,000	

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

The fair value of stock options awarded during 2011 and 2010 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free interest rate:	2.07%	2.43%
Expected volatility:	79%	89%
Expected lives:	4.2 years	5 years
Estimated Forfeiture rate:	-	-

The average fair value of stock options awarded during 2011 and 2010 was $ 0.40 and $ 0.36, respectively.

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

7. **FINANCIAL INSTRUMENTS**

a) **Fair value**
The fair value of financial instruments at June 30, 2011 and 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.

	June 30,			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Held for trading				
Cash	$ 4,596,565	$ 4,596,565	$ 3,458,450	$ 3,458,450
Loans and receivables				
Amounts receivable	37,803	37,803	7,878	7,878
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	194,120	194,120	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 currency risk.

7. **FINANCIAL INSTRUMENTS** – continued

Credit risk
Credit risk arises due to the potential for one party to a financial instrument to fail to discharge its obligations and cause the other party to suffer a loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company holds its cash with financial institutions that are believed to be creditworthy. The Company's amounts receivable relate primarily to receivables from Harmonized Sales Tax input tax credits. Accordingly, the Company views credit risk on amounts receivable as minimal as it is due from the Government of Canada.

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 FLOWS INFORMATION

Non-cash financing and investing transactions were as follows:

	2011	2010
Financing activities		
Common shares issued for unproven mineral interests	$ 2,691,000	$ 800,500
Investing activities		
Unproven mineral interests purchased through share issue	$ (2,691,000)	$ (800,500)

10. RELATED PARTY TRANSACTIONS

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

During the year ended June 30, 2011, the Company incurred management fees of $ 136,000 (2010: $ 120,000) to a corporation controlled by a director, consulting fees of $ 33,350 (2010: $ 22,500) for accounting services to an officer, and investor relations and website design services of $ 16,000 (2010: $ Nil) to a company controlled by a director. At June 30, 2011, $ 8,315 (2010: $ 1,525) of these fees remained outstanding and are included in accounts payable and accrued liabilities, and $ 22,350 (2010: $ 10,000) were prepaid and are included in prepaid expenses.

During the year ended June 30, 2010, fees of $ 162,376 were paid for geological services to a former director, of which $ 156,662 were capitalized and $ 5,714 were expensed. At June 30, 2010, $ 13,704 of these fees were outstanding and were included in accounts payable and accrued expenses.

11. INCOME TAXES

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

	2011	2010
Future income tax assets		
Benefit of loss carryforwards	$ 502,000	$ 121,000
Deductible share issue cost	127,000	45,000
	629,000	166,000
Less: valuation allowance	(629,000)	(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:

	2011	2010
Income taxes (recovery) at statutory income tax rates (2011 – 26.5%, 2010 – 28.25%)	$ (234,000)	$ (134,000)
Deductible share issue costs	(44,000)	(15,500)
Non-deductible stock-based compensation	128,000	24,000
Addition to loss carryforward	150,000	125,000
	$ –	$ –

11. **INCOME TAXES** – continued

As at June 30, 2011 the Company had loss carryforwards of approximately $ 2,010,000, which expire between the 2028 and 2031 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**

	2011	2010
Balance, beginning of year	$ 577,453	$ 117,237
Fair value of stock-based compensation	517,591	486,450
Reclassified on exercise of stock options	(66,103)	(12,995)
Reclassified on exercise of agents options	-	(13,239)
	$ 1,028,941	$ 577,453

13. **SEGMENTED INFORMATION**

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

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

	2011		
	Canada	United States	Total
Total assets	$ 4,697,571	$ 12,089,736	$ 16,787,307
Unproven mineral interests	-	12,020,083	12,020,083
Net income (loss)	(1,214,783)	(223,553)	(1,438,336)
Property and equipment additions	6,315	33,276	39,591
Amortization of property and equipment	1,026	7,436	8,462

	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

14. **SUBSEQUENT EVENT**

Subsequent to June 30, 2011, the Company amended its agreement with respect to the Buckhorn property. Under the amended agreement, in addition to amounts already paid and shares already issued, the Company paid US$ 12,500 (a payment of US$ 25,000 was previously required by July 17, 2011) and incur an aggregate of US$ 160,000 in exploration and development work by August 31, 2012. The Company is required to drill 3 holes by July 1, 2012; upon receipt of assay results satisfactory to the Company, the Company will pay US$ 12,500 with interest at 5% from July 17, 2011; if the assay results are not satisfactory to the Company, the agreement will terminate.