



***Management Discussion and Analysis***

**For the year ended June 30, 2012**

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**Otis Gold Corp.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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**Background**

This management discussion and analysis, (“MD&A”), prepared as at October 29 2012, provides information that management believes is relevant to an assessment and understanding of the financial position of Otis Gold Corp. (the “Company” or “Otis”) as at June 30, 2012. The MD&A should be read in conjunction with the audited consolidated financial statements of Otis Gold Corp. (the “Company”) for the years ended June 30, 2012 and 2011 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Company’s 2011 comparatives in this MD&A have been presented in accordance with IFRS. As the Company’s IFRS transition date was July 1, 2010, 2010 comparative information included in this MD&A has not been restated. Except as otherwise disclosed, all dollar figures included therein and the following MD&A are presented in Canadian dollars. The Audit Committee of the Board of Directors of the Company has approved this document pursuant to its mandate and charter.

**Nature of Business**

Otis Gold Corp. was incorporated under the *Business Corporations Act* (British Columbia) on April 24, 2007 as Otis Capital Corp. 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, and on May 2, 2011, the Company began trading on the OTCQX International (“OTCQX”) under the trading symbol OGLDF. The Company is in the business of acquiring and exploring unproven mineral interests.

**Forward Looking Statements**

All statements made in this MD&A, other than statements of historical fact, are forward looking statements. The Company’s actual results may differ significantly from those anticipated in the forward looking statements and readers are cautioned not to place undue reliance on these forward looking statements. Except as required by securities regulations, the Company undertakes no obligation to publicly release the results of any revisions to forward looking statements that may be made to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events.

Forward looking statements include, but are not limited to, statements with respect to the future price of gold, the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Such factors include, among others, risks related to the integration of acquisitions; risks related to international operations; actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward looking statements.

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**Exploration and Evaluation Assets**

**Kilgore Gold Project**

The Company entered into a joint venture on the Kilgore Gold Project (or "Kilgore") located in Clark County, Idaho and the Hai and Gold Bug properties located in Lemhi County, Idaho. Initially, Kilgore was covered by 162 federal lode mining claims and the Hai and Gold Bug properties were covered by 19 federal lode mining claims. Under this joint venture agreement, the Company could earn up to a 75% joint venture interest in the Kilgore Gold Project and the Hai and Gold Bug properties, subject to a 2% net smelter royalty ("NSR"). Under the joint venture, the Company paid US \$200,000, issued 1,300,000 common shares and completed over US \$3,000,000 in exploration expenditures.

In December 2010, the Company purchased a 100% interest in the Kilgore Gold Project for 2,000,000 common shares (issued at their fair value of \$1,320,000) and staged payments of US \$1.75 million. The first payment of US \$750,000 was made in January 2011, the second payment of US \$750,000 was made in April 2011, and the final payment of US \$250,000 was made in November 2011. As a result of this transaction, Otis now owns a 100% interest in the Kilgore, Hai and Gold Bug properties, and the over-riding 2% NSR has been eliminated.

In February 2012, the Company acquired an additional 1,880 acres of land contiguous to the Kilgore Gold Project via the direct staking of federal lode mining claims and an application for a State Land Use Permit. This increased its total Kilgore land package to 5,130 acres, comprising 232 federal lode mining claims and one Idaho State Land Use Permit.

Kilgore is a volcanic-hosted epithermal gold system situated on the northern margin of the eastern Snake River Plain. Mineralization is hosted within Miocene age lithic tuff intruded by felsic dikes on the margin of an ancient caldera setting. Mineralization is analogous to that characterizing the Round Mountain, Nevada and McDonald Meadows, Montana multi-million ounce volcanic-hosted disseminated gold deposits. Between 1983 and 1996, Placer Dome, Echo Bay and others drilled 37,260 meters in 190 holes. This work outlined a NI 43-101 compliant resource containing 218,000 ounces of Indicated gold at a grade of 0.031 ounces per tonne (opt) and 269,000 ounces of Inferred gold at a grade of 0.028 opt. In 2008, Otis submitted a "20 site" Plan of Operation that was accepted by the Caribou-Targhee National Forest. The Company is currently implementing a program to outline a sizeable bulk mineable deposit area that can be mined by open pit methods.

In March and April 2009, Otis released favourable drilling results from four core-holes drilled in November and December 2008. The four holes totaled approximately 630 metres of drilling at the Kilgore Gold Project. The results confirm the presence of high-grade gold values from potentially mineable thicknesses and intervals within a higher-grade core zone in the Kilgore Mine Ridge area. The results also provide details regarding the attitudes and structural controls of some of the quartz stockwork vein-type gold mineralization present.

In December 2009, the Company completed a further 12 core drill holes totaling approximately 3,100 metres of drilling in the Mine Ridge Area. The majority of the holes contain mineralized thickness and average grades substantially greater than the majority of the intervals previously released. These new intervals could serve to increase the overall size and grade of the Kilgore bulk-tonnage deposit, further enhancing the deposit economics. Additionally, a Controlled Source Audio-Frequency Magnetotellurics ("CSAMT") geophysical survey was completed in November 2009 in the Dog Bone Ridge area (immediately to the southwest of the Mine Ridge area) which identified the presence of numerous sizable and geologically significant resistivity anomalies.

The 2010 drill program consisted of approximately 7,700 metres - approximately 6,650 metres was spread amongst 35 holes, conducted in the Mine Ridge area utilizing two core rigs, and approximately 1,100 metres was spread amongst 5 holes at certain Dog Bone Ridge geophysical targets. The drill results from the Mine Ridge area showed significant gold mineralization and the deposit has increased to over 365 metres in length in a northerly direction and remains open to the south, north, northwest and east. These results continue to support a high degree of confidence concerning continuity of mineralization throughout the deposit that should result in an increase in the overall size and economic viability of the Mine Ridge deposit. At Dog Bone

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Ridge, the Company intercepted a 138 meter interval of anomalous gold in 1 of the 5 target holes and plans further drill testing in this area. The Company also released positive metallurgical results and a favourable environmental pre-feasibility study indicating that there are no material impediments to permitting an open pit, heap leach mine at Kilgore.

In 2011, 41 holes were drilled totaling approximately 9,200 metres. 28 of the 41 holes were mineralized and the remaining holes serve to delimit the outer boundary of the deposit; an additional 2 holes were drilled as metallurgical test holes. Highlights of the 2011 drill program include:

- The core of the Mine Ridge deposit has increased by 74% in length, from 460 metres to approximately 800 metres in a northwest-southeast direction;
- The Mine Ridge deposit remains open to the north, northwest and southeast, resulting in significant potential for deposit expansion;
- 28 of 41 holes intercepted significant mineralization; and
- A discovery hole was drilled in the Prospect Ridge target, located immediately to the southeast of the Mine Ridge deposit area.

The Company also collected soil samples from the "North Soil Grid" and the "South Soil Grid" situated along the strike projection of the Northwest Fault, known to be the feeder to the Kilgore "Mine Ridge" Deposit. The results from the North Soil Grid display strong linear gold-in-soil anomalies that trace the extension of the Northwest Fault for a minimum of 400 metres to the northwest and represent the surface manifestation of feeder faults that supplied the gold-rich hydrothermal fluids into the deposit's host rocks. Results from the South Soil Grid identify a large, and previously untested, anomalous area in the Prospect Ridge target area.

Since late 2011, the Company has not conducted any new drilling. On July 31, 2012, the Company released a National Instrument 43-101 Resource Estimate (NI 43-101); this is the first resource estimate prepared by Otis since acquiring the property in the fall of 2008. The updated resource estimate includes all historical drilling, plus an additional 92 HQ core holes (totaling 19,630 m) drilled by Otis between 2008 through 2011.

Highlights of the NI 43-101 are:

- An Indicated Resource of 520,000 oz Au in 27.35 million tonnes at a grade of 0.59 g/t Au; this new Indicated Resource represents an increase of 138% in the number of ounces and 328% in the number of tonnes over the 2002 Estimate; and
- An Inferred Resource of 300,000 oz Au in 20.23 million tonnes at a grade of 0.46 g/t Au; this new Inferred Resource represents an increase of 12% in the number of ounces and 131% in the number of tonnes over the 2002 Estimate.

The results from Otis' drilling programs have moved previously defined Inferred resources into the Indicated category and have added new resources to both the Indicated and Inferred categories.

The Company is designing programs to both expand the deposit and test several additional high priority targets on the property. Otis plans to increase the number of targets under evaluation and aggressively search for new deposits with the ultimate goal of developing the property into a large-scale gold district.

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**Oakley Project.** The project consists of 2 primary targets – the Blue Hill Creek property and the Cold Creek property.

**a) Blue Hill Creek (or “BHC”)**

On June 11, 2008, the Company entered into an agreement in principal to acquire a 100% interest in the Blue Hill Creek Gold Project located in Cassia County, Idaho; the property consists of 18 unpatented federal lode mining claims and an adjacent 80 acre Idaho State lease.

The Blue Hill Creek precious metal system, containing an Inferred resource of 235,000 ounces of gold grading 0.016 ounce per tonne, is part of a larger, north-trending, 5-mile-long by 1-mile-wide belt of scattered gold anomalies along a north-trending, Basin-and-Range mountain block, which serves as the westernmost extension of the Albion metamorphic core complex. The geology of the property is dominated by the lower member of the Tertiary Salt Lake Formation where auriferous chalcedonic sinter, and thick section of mineralized epiclastic and tuffaceous volcanic rock host the precious metal mineralization. A recently completed Controlled-Source-Audio-Frequency Magnetotellurics (“CSAMT”) geophysical survey indicated the presence of a sizable and geologically significant 1.5 kilometre-long low-resistivity anomaly. These feeders are adjacent to mineralized rock and may constitute drill targets. A NI 43-101 qualifying report on the property has been filed with the Exchange.

Up to June 30, 2012, the Company has paid a total of US \$218,000 and has issued 6,000,000 common shares (at their estimated fair value of \$2,550,000) to acquire an undivided 70% interest in BHC. In July 2012, the Company waived its right to increase its interest to 85% and to 100% by withholding a payment of US \$ 80,000 to the optioners. Future exploration programs will be paid on a pro-rata basis by the Company and the project's optioners. Failure to participate in an exploration program will result in the non-participating party's interest being diluted

The Company will be responsible for filing and paying all annual assessments and fees relating to BHC.

A 2.5% net smelter 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).

The Company has permitted a drill program at Blue Hill Creek, and is seeking a joint venture partner for drilling operations.

**b) Cold Creek**

The Cold Creek Gold Project, located in Cassia County, Idaho, comprises 53 unpatented federal lode mining claims located approximately 5 miles north of the Company's Blue Hill Creek Gold Project. Otis acquired the claims in exchange for payment of the costs associated with staking the property.

The Cold Creek precious metal system lies on the western margin of the Albion metamorphic core complex. Alteration and gold mineralization are hosted within a conglomeratic sandstone. The Cold Creek zone consists of a northwest-trending, fault bounded graben, filled by more than 450 feet of Tertiary sedimentary rocks which unconformably overlie Paleozoic sedimentary rocks. Pervasive silicification with locally strong stockwork chalcedonic quartz veins are the primary alteration types. Fine-grained pyrite is ubiquitous in the pervasively silicified and oxidized rock. Surface dimensions of these altered measure at least 1,000 feet x 3,000 feet. Surface gold values to 0.06 opt are present. A total 38 reverse circulation holes were completed by both Meridian and WestGold in the Cold Creek Area. A historically reported, non-NI 43-101 compliant open-ended 50,000 ounce gold resource exists which is in need of step-out drilling. Although considered relevant, the reader is cautioned that this resource estimate does not comply with the guidelines of National Instrument 43-101 and Otis is not treating it as such.

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In January 2009, Otis announced the results of a recent CSAMT (Controlled-Source Audio-Frequency Magnetotellurics) geophysical survey that indicates the presence of a sizeable and geologically significant, 1.5 kilometer-long, low-resistivity anomaly underlying and extending downdip from the Company's Blue Hill Creek gold deposit and precious metals target area located in Cassia County, Idaho. Smaller, but geologically significant, CSAMT anomalies were also identified underlying and extending beyond Otis' Cold Creek gold deposit and target area, 5 miles north of the Blue Hill Creek target.

The survey was conducted using 50-meter-spaced electric-field receiver dipoles in order to identify low-resistivity structures that may have acted as feeders for the gold deposits at Blue Hill Creek and Cold Creek. The CSAMT survey was conducted by Zonge Geosciences Inc., Sparks, Nevada between October 9th and October 26th, 2008, and consisted of data acquisition from nine east-west oriented lines (16 line-km) using two transmitter dipoles concentrated over the Blue Hill Creek and Cold Creek portions of Otis' Oakley claim block.

**Other Projects**

The Company also has an early stage exploration project, named the Buckhorn Silver Project, located in central Idaho. The project has undergone initial drill testing and results are being evaluated. The drilling program was designed to test multi-ounce silver chip-channel intervals obtained from shallow trenches in the fall of 2009. No material mineralized intercepts were encountered, but several of the holes were lost due to ground conditions. In June 2012, the Company terminated its agreement on the Buckhorn property and wrote off total costs incurred of \$344,465.

During the year ended June 30, 2011, the Company abandoned its interest in the Red Property in Nevada and wrote off the costs incurred of \$121,274.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral property costs.

**Selected Financial Data**

The following selected financial information is derived from the audited consolidated annual financial statements of the Company prepared in accordance with IFRS for the years ended June 30, 2012 and 2011 and in accordance with Canadian GAAP for the year ended June 30, 2010.

Annual results for the years ending June 30 are:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Sales	\$ -	\$ -	\$ -
Net Loss	(1,222,358)	(1,441,278)	(1,131,525)
Net Loss per share	\$(0.03)	\$(0.04)	\$(0.05)
Total assets	\$ 16,982,693	\$ 16,787,307	\$ 8,595,508
Total liabilities	93,361	194,120	206,015

The table below presents selected financial information for the Company's most recently completed quarters.

	<u>Apr – June</u> <u>Q4/12</u>	<u>Jan – Mar.</u> <u>Q3/12</u>	<u>Oct. – Dec.</u> <u>Q2/12</u>	<u>July - Sept.</u> <u>Q1/12</u>	<u>Apr – June</u> <u>Q4/11</u>	<u>Jan – Mar.</u> <u>Q3/11</u>	<u>Oct. – Dec.</u> <u>Q2/11</u>	<u>July - Sept.</u> <u>Q1/11</u>
Net Sales	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Income (Loss)	\$(489,544)	\$(149,808)	\$(299,933)	\$(283,243)	\$(221,137)	\$(528,853)	\$(347,465)	\$(343,822)
Net Income (Loss) per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Total assets	\$16,977,693	\$17,403,278	\$16,345,130	\$17,024,086	\$16,787,307	\$16,532,460	\$12,406,172	\$8,616,034
Total liabilities	\$93,361	\$67,574	\$ 177,589	\$703,987	\$194,120	\$64,463	\$211,203	\$79,009

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**Analysis of the year ended June 30, 2012 versus the year ended June 30, 2011**

In the year ended June 30, 2012, the Company incurred expenses of \$871,993 compared with expenses of \$1,348,592 in the year ended June 30, 2011. The \$476,599 decrease was primarily due to a decrease in share-based compensation of \$337,045 resulting from the grant of 1,200,000 stock options in the year ended June 30, 2011, and a decrease of \$160,600 in investor relations services. The Company earned interest income of \$22,824, realized a gain of \$170 on the sale of office furniture, incurred foreign exchange losses of \$28,894, and wrote off its interest in the Buckhorn property of \$344,465; this resulted in a net loss in the year ended June 30, 2012 of \$1,222,358 or \$0.03 per share. In the prior year, the Company wrote off its interest in the Red property of \$121,274, earned interest income of \$29,796, and incurred foreign exchange losses of \$1,208, resulting in a loss of \$1,441,278 or \$0.04 per share.

**Analysis of the three months ended June 30, 2012 versus the three months ended June 30, 2011**

In the three months ended June 30, 2012, the Company incurred expenses of \$168,053 compared with expenses of \$241,419 in the same period of 2011. The \$73,366 decrease was primarily due to 2 factors: a) a decrease of \$29,304 in share-based compensation, and b) a decrease of \$40,627 in investor relations services. During the fourth quarter of 2012, the Company earned interest income of \$5,695, realized foreign exchange gains of \$17,309, and wrote off its interest in the Buckhorn property of \$344,465; this resulted in a net loss in the quarter of \$489,544 or \$0.01 per share. During the fourth quarter of 2011, the Company earned interest income of \$13,301 and realized foreign exchange gains of \$6,981, resulting in a loss of \$221,137 or \$0.01 per share.

**Share Capital**

As at June 30, 2012, the Company had 50,228,782 common shares issued and outstanding. There are 3,035,000 share purchase options outstanding at prices ranging from \$0.20 to \$0.50 with expiry dates ranging from November 2012 to November 2016; 800,000 stock options exercisable at \$0.30 were awarded during the year ended June 30, 2012 and 200,000 stock options exercisable at \$0.52 and 800,000 stock options exercisable at \$0.70 were cancelled. As at June 30, 2012, there were 7,007,733 share purchase warrants outstanding at prices ranging from \$0.30 to \$1.10 with expiry dates ranging from August 2012 to October 2013. In October 2012, the Company awarded 2,000,000 stock options, exercisable at \$0.15 until October 10, 2017. On October 12, 2012, the Company shares closed at \$0.21 on the TSX Venture Exchange.

In October 2012, the Company adopted a shareholder rights plan. The rights under the shareholder rights plan will become exercisable only if a person, together with its affiliates, associates and joint actors, acquires or announces its intention to acquire 20% or more of the Company's outstanding common shares, other than by permitted bid. If a take-over bid does not meet the permitted bid requirements of the shareholder rights plan, the rights will entitle shareholders to purchase one additional common share of the Company at an effective 50% discount to the market price of the common shares at that time.

**Financial Condition/Capital resources**

The Company had working capital of \$1,691,945 as at June 30, 2012. The Company has invested \$1,694,775 of its cash balances in Canadian bank guaranteed investment certificates maturing in less than one year. Funds that are considered excess to current operating needs are invested in Canadian bank interest bearing short term investments that are highly liquid with maturities of up to one year; the investments are cashable at any time without penalty.

During the year ended June 30, 2012, the Company spent \$3,151,896 as part of an extensive drilling program on its Kilgore property. Most of this work was done during the first half of the fiscal year, and due to the weak state of capital markets, particularly with respect to junior exploration companies, the Company curtailed drilling during the second half of the fiscal year and is currently reviewing its 2013 exploration program.

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In the immediate term, the Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its ongoing business operations and exploration projects. Additional capital may be sought from existing shareholders and creditors and 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. In the longer term, the recoverability of the carrying value of the Company's long-lived assets is dependent upon the Company's ability to preserve its interest in the underlying mineral property interests, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs and mining operations.

**Contractual Obligations**

The following table summarizes the Company's contractual obligations as of June 30, 2012:

	<b>Payments Due by Period</b>			<b>Total</b>
	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>Greater than 2 years</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Contractual Obligations				
Liabilities	<u>93,361</u>	<u>Nil</u>	<u>Nil</u>	<u>93,361</u>

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Proposed Transactions**

The Company has no proposed transactions.

**Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of recoverability of amounts capitalized to exploration and evaluation assets, property, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, decommissioning provisions, valuation allowances for deferred income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates

A detailed summary of all the Company's significant accounting policies is included in Note 3 to the June 30, 2012 consolidated financial statements.

**Financing Transactions**

In March 2012, the Company completed the first tranche of a non-brokered private placement of 7,042,500 units at \$0.20 for gross proceeds of \$1,408,500. Each unit consisted of one common share and one-half a share purchase warrant exercisable at \$0.30 for 18 months. Finder's fees of \$64,575 were paid and 322,875 finder's warrants were issued, exercisable at \$0.30 for 18 months. In April 2012, the second tranche of the private placement closed with the issuance of 250,000 units on the same terms for gross proceeds of \$50,000. Finder's fees of \$3,500 were paid and 17,500 finder's warrants were issued, exercisable at \$0.30 for 18 months



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**Transactions with Related Parties**

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) Key management personnel compensation

Key management personnel include directors and officers and key management compensation consists of the following:

	<u>2012</u>	<u>2011</u>
Management fees	\$ 150,000	\$ 136,000
Consulting fees	38,095	33,350
Corporate development and website design services	10,628	16,000
Share-based compensation	<u>81,880</u>	<u>180,560</u>
	<u>\$ 280,603</u>	<u>\$ 365,910</u>

As at June 30, 2012, \$ 3,360 (2011 - \$ 8,315) remained unpaid and has been included in accounts payable and accrued liabilities. As at June 30, 2012 \$ 14,000 (2011 \$ 22,350) were prepaid and are included in prepaid expenses and deposits.

**Risk Factors**

The reader is cautioned that the following description of risks and uncertainties is not all-inclusive as it pertains to conditions currently known to management. There can be no guarantee or assurance that other factors will or will not adversely affect the Company.

**Risks Inherent in the Mining and Metals Business**

The business of exploring for minerals is inherently risky. Few properties that are explored are ultimately developed into producing mines. Mineral properties are often non-productive for reasons that cannot be anticipated in advance. Title claims can impact the exploration, development, operation and sale of any natural resource project. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse governmental action. The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry. In addition, insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on the Company.

**Mineral Resources and Recovery Estimates**

Disclosed resource estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations. The Company estimates its mineral resources in accordance with the requirements of applicable Canadian securities regulatory authorities and established mining standards. Mineral resources are concentrations or occurrences of minerals that are judged to have reasonable prospects for economic extraction, but for which the economics of extraction cannot be assessed, whether because of insufficiency of geological information or lack of feasibility analysis, or for which economic extraction cannot be justified at the time of reporting. Consequently, mineral resources are of a higher risk are less likely to be accurately estimated or recovered than mineral reserves. The mineral reserve and resource figures are estimates based on the interpretation of limited sampling and subjective judgements

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regarding the grade and existence of mineralization, as well as the application of economic assumptions, including assumptions as to operating costs, foreign exchange rates and future metal prices. The sampling, interpretations or assumptions underlying any reserve or resource figure may be incorrect, and the impact on mineral resources may be material. In addition, short term operating factors relating to mineral resources, such as the need for orderly development of orebodies or the processing of new or different ores, may cause mineral resource estimates to be modified or operations to be unprofitable in any particular fiscal period. There can be no assurance that the indicated amount of minerals will be recovered or that they will be recovered at the prices assumed for purposes of estimating resources.

**Financing**

The Company does not currently have any operations generating cash to fund projected levels of exploration and development activity and associated overhead costs. The Company is therefore dependent upon debt and equity financing to carry out its exploration and development plans. There can be no assurance that such financing will be available to the Company or at all.

**Environment**

Environmental legislation affects nearly all aspects of the Company's operations. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties, clean up costs arising out of contaminated properties, damages and the loss of important permits. Exposure to these liabilities arises not only from existing operations, but from operations that have been closed or sold to third parties. There can be no assurances that the Company will be at all times in compliance with all environmental regulations or that steps to achieve compliance would not materially adversely affect the Company. Environmental laws and regulations are evolving in all jurisdictions where the Company has activities. The Company is not able to determine the specific impact that future changes in environmental laws and regulations may have on the Company's operations and activities, and its resulting financial position; however, the Company anticipates that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly strident environmental regulation. Further changes in environmental laws, new information on existing environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits, could require increased financial resources or compliance expenditures or otherwise have a material adverse effect on the Company. Changes in environmental legislation could also have a material adverse effect on product demand, product quality and methods of production and distribution.

**Legal proceedings**

The nature of the Company's business may subject it to numerous regulatory investigations, claims, lawsuits, and other proceedings. The result of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on the Company.

**Foreign currency**

The Company has operations in Canada and the United States subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian and the United States dollars, and the fluctuation of the Canadian dollar in relation to United States dollars will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

As at June 30, 2012, the Company had a cash balances of \$5,857 in US dollars and US \$64,899 in accounts payable and accrued expenses. The Company will purchase US dollars as the need arises in order to fund its exploration and development activities in the USA. Corporate expenditures are incurred primarily in Canadian dollars.

**Credit**

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by depositing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

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**Interest rate**

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest bearing assets in relation to cash at banks and GICs carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

**Changes in Accounting Policies**

**IFRS Implementation - Changes in Accounting Policies Including Initial Adoption**

The Canadian Accounting Standards Board established 2011 as the year that Canadian companies' financial reporting requirements should comply with IFRS. Accordingly, the Company has commenced reporting on an IFRS basis in the current consolidated financial statements. The transition date, July 1, 2010, has required the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The Company has completed its internal review of the impact of the adoption of IFRS. This review considered potential differences between applicable IFRS policies and those currently used by the Company. Accounting policy changes were made due to IFRS in the areas of exploration and evaluation assets, impairment testing, property, plant and equipment, provision for site restorations, and share-based compensation. Available elections under IFRS minimized the impact of these changes such that the financial reporting impact of the transition to IFRS is not material to the Company's financial results. The impact of the changes to IFRS is detailed in Note 16 to the consolidated financial statements including the effects of the transition to IFRS on the Company's financial position, equity, comprehensive loss and cash flows.

***Accounting Standards and Interpretations Issued but Not Yet Adopted***

The following accounting standards, amendments and interpretations have been issued but are not effective until annual periods beginning after January 1, 2011, unless otherwise indicated, earlier application is permitted. As at the date of these financial statements, the following standards, amendments and interpretations have not been applied in these financial statements.

- (i) IFRS 9 *Financial Instruments* (New; to replace IAS 39); effective for annual periods beginning on or after January 1, 2015.
- (ii) IFRS 10 *Consolidated Financial Statements*; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidated - Special Purpose Entities*.
- (iii) IFRS 11 *Joint Arrangements*; effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS supersedes the current IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Ventures*.
- (iv) IFRS 12 *Disclosure of Interest in Other Entities*; effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- (v) IFRS 13 *Fair Value Measurements*; to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 13 defines fair value, sets out in a single IFRS

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framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

- (vi) IAS 12 *Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets*; effective for annual periods beginning on or after January 1, 2012.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.