



***Interim Consolidated Financial Statements***  
**For the six months ended December 31, 2012**

(Expressed in Canadian Dollars)  
(Unaudited – Prepared by Management)

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Notice: These interim consolidated financial statements have been prepared by management and they have not been reviewed by the Company's external auditors

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Otis Gold Corp. for the six months ended December 31, 2012 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 consolidated 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.

## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	<u>December 31, 2012</u>	<u>June 30, 2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 904,893	\$ 1,706,317
Amounts receivable	29,394	16,091
Reclamation deposit	7,330	7,330
Prepaid expenses and deposits	<u>66,093</u>	<u>55,568</u>
	1,007,710	1,785,306
RECLAMATION DEPOSITS	12,242	11,889
PROPERTY AND EQUIPMENT (Note 3)	33,939	38,499
UNPROVEN MINERAL INTERESTS (Note 4)	<u>15,653,288</u>	<u>15,146,999</u>
	<u>\$ 16,707,179</u>	<u>\$ 16,982,693</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>\$ 156,622</u>	<u>\$ 93,361</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 5)	20,011,378	20,011,378
CONTRIBUTED SURPLUS (Note 11)	1,504,768	1,260,570
RETAINED EARNINGS (DEFICIT)	<u>(4,965,589)</u>	<u>(4,382,616)</u>
	<u>16,550,557</u>	<u>16,889,332</u>
	<u>\$ 16,707,179</u>	<u>\$ 16,982,693</u>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

These consolidated financial statements were approved for issue by the Board of Directors on February 28, 2013 and are signed on its behalf by:

/s/Craig T. Lindsay  
Craig T. Lindsay, Director

/s/Sean Mitchell  
Sean Mitchell, Director

# Otis Gold Corp.

For the six months ended December 31, 2012 and 2011

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Six months Dec. 2012	Six months Dec. 2011	Three months Dec. 2012	Three months Dec. 2011
<b>EXPENSES</b>				
Investor relations	\$ 29,836	\$ 71,230	\$ 16,731	\$ 31,718
Share-based compensation	244,198	157,360	244,198	147,204
Management fees	79,669	84,157	39,678	41,906
Office expenses	69,693	92,393	37,905	56,863
Foreign exchange loss (gain)	24,170	43,347	21,112	(67,362)
Professional fees	72,873	67,724	38,901	54,810
Travel	47,918	53,737	36,749	24,483
Regulatory costs	16,782	13,014	13,724	9,511
Amortization	4,560	5,802	2,283	2,950
Bank charges	903	1,132	357	609
Property investigations	-	9,195	-	5,048
<b>TOTAL EXPENSES</b>	<b>590,602</b>	<b>599,091</b>	<b>451,638</b>	<b>307,740</b>
<b>LOSS</b>	<b>(590,602)</b>	<b>(599,091)</b>	<b>(451,638)</b>	<b>(307,740)</b>
<b>OTHER ITEM</b>				
Gain on sale of assets	-	170	-	170
Interest income	7,629	15,915	3,098	7,807
<b>NET LOSS FOR THE PERIOD</b>	<b>\$ (582,973)</b>	<b>\$ (583,006)</b>	<b>\$ (448,540)</b>	<b>\$ (299,763)</b>
<b>DEFICIT, beginning of period</b>	<b>(4,382,616)</b>	<b>(2,585,757)</b>	<b>(4,517,049)</b>	<b>(2,869,000)</b>
<b>DEFICIT, end of period</b>	<b>\$ (4,965,589)</b>	<b>\$ (3,168,763)</b>	<b>\$ (4,965,589)</b>	<b>\$ (3,168,763)</b>
<b>NET INCOME (LOSS) PER SHARE,</b> basic and diluted (Note 9)				
	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
	<b>50,228,782</b>	<b>42,936,282</b>	<b>50,228,782</b>	<b>42,936,282</b>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

# Otis Gold Corp.

## INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2012 AND JUNE 30, 2012

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Share capital		Reserves	Accumulated deficit	Shareholders' equity
	Number of shares	Amount			
Balance at July 1, 2011	42,936,282	\$ 18,724,504	\$ 1,028,941	\$ (3,160,258)	\$ 16,593,187
Common shares issued for:					
Cash	7,292,500	1,385,575	72,925	-	1,458,500
Less: Share issue costs	-	(98,701)	10,875	-	(87,826)
Share-based compensation	-	-	147,829	-	147,829
Comprehensive loss for the year	-	-	-	(1,222,358)	(1,222,358)
Balance at June 30, 2012	50,228,782	20,011,378	1,260,570	(4,382,616)	16,889,332
Share-based compensation	-	-	244,198	-	244,198
Comprehensive loss for the period	-	-	-	(582,973)	(582,973)
Balance at Dec. 31, 2012	<u>50,228,782</u>	<u>\$ 20,011,378</u>	<u>\$ 1,504,768</u>	<u>\$ (4,965,589)</u>	<u>\$ 16,550,557</u>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

# Otis Gold Corp.

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended December 31, 2012 and 2011

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	Six months Dec. 2012	Six months Dec. 2011	Three months Dec. 2012	Three months Dec. 2011
<b>CASH FLOW FROM (USED IN) OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (582,973)	\$ (583,006)	\$ (448,540)	\$ (299,763)
Adjustments to reconcile net cash provided by operating activities				
Stock-based compensation	244,198	157,359	244,198	147,204
Amortization	4,560	5,802	2,283	2,950
Decrease (increase) in				
Amounts receivable	(13,303)	(33,271)	(5,619)	(31,299)
Share subscription receivables	-	-	-	-
Prepaid expenses	(10,525)	835	(24,381)	(27,612)
Increase (decrease) in				
Accounts payable and accrued liabilities	63,261	(16,531)	79,664	(526,397)
	<u>(294,782)</u>	<u>(468,812)</u>	<u>(152,395)</u>	<u>(734,917)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Expenditures on unproven mineral interests	(506,289)	(2,994,608)	(316,075)	(998,833)
Reclamation deposits	(353)	-	(353)	-
Acquisition (disposal) of property & equipment	-	(673)	-	(674)
	<u>(506,642)</u>	<u>(2,995,281)</u>	<u>(316,428)</u>	<u>(999,507)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<b>(801,424)</b>	<b>(3,464,093)</b>	<b>(468,823)</b>	<b>1,734,424</b>
CASH, beginning of period	<u>1,706,317</u>	<u>4,596,565</u>	<u>1,373,716</u>	<u>2,866,896</u>
CASH, end of period	<u>\$ 904,893</u>	<u>\$ 1,132,472</u>	<u>\$ 904,893</u>	<u>\$ 1,132,472</u>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS

Otis Gold Corp. (the "Company") is incorporated under the laws of the Province of British Columbia and was established as a legal entity on April 24, 2007.

The Company's principal business activities are the acquisition of rights to explore for minerals and the exploration of acquired rights. All of the Company's exploration and evaluation assets are located in Idaho, USA.

The Company's common shares are listed on the TSX Venture Exchange under the trading symbol "OOO:\V". The Company's share options and share purchase warrants are not listed.

The Company's principal office is located at:

1610 – 1066 West Hastings St.  
Vancouver, British Columbia V6E 3X1  
Canada

The amounts shown as exploration and evaluation assets represent net costs to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place the exploration and evaluation assets into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop its exploration and evaluation assets.

The Company has working capital as at December 31, 2012 of \$ 851,088 (June 30, 2012- \$1,691,945) and an accumulated deficit of \$ 4,965,589 (June 30, 2012 - \$ 4,382,616). These consolidated financial statements have been prepared under the assumption of a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue as a going concern is dependent upon obtaining additional financing to meet its operating and exploration expenses in the future. Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and future prospects of the Company. Accordingly, these consolidated financial statements do not give effect to adjustments to assets or liabilities that may be necessary should the Company be unable to continue as a going concern.

### 2. BASIS OF PRESENTATION

The Company's interim consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Details of the Group

In addition to the Company, the interim consolidated financial statements include a subsidiary. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidated. They are de-consolidated from the date that control by the Company ceases.

As at December 31, 2012, the Company's subsidiary is as follows:

- Otis Capital USA Corp., Nevada, USA

#### Critical Judgements and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Critical Judgements*

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) Management is required to assess the functional currency of each entity of the Company. In concluding that the dollar the functional currency of the parent and its subsidiary management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (ii) Management is required to assess impairment in respect of exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that there were no triggering events as defined in IFRS 6 with respect to the Company's Oakley (Idaho) and Kilgore (Idaho) properties.

- (iii) Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.



# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### Cash

Cash includes cash on hand and demand deposits. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution.

#### Amounts Receivable

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivable. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

#### Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

#### Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation assets are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that the exploration and evaluation asset is not expected to be recovered, it is charged to the results of operations.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of 20%.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

#### Impairment of Long-Lived Assets

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### **Decommissioning Provision**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

The Company did not have any decommissioning obligations as at December 31, 2012 and June 30, 2012.

#### **Current and Deferred Income Taxes**

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income (loss), except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the income tax is also recognized in other comprehensive income or directly in equity, respectively.

##### *Current Income Tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### *Deferred Income Tax*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

#### Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit and loss.

Financial assets classified as fair value through profit and loss are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as fair value through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable and reclamation bonds are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At December 31, 2012 the Company has not classified any financial assets as available for sale.

Transaction costs associated with fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. **SIGNIFICANT ACCOUNTING POLICIES** - continued

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as fair value through profit and loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At December 31, 2012 the Company has not classified any financial liabilities as fair value through profit and loss.

#### **Share Capital**

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

#### **Equity Financing**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the closing date. The balance, if any, is allocated to the attached share purchase warrants.

#### **Foreign Currency Translation**

##### *Functional and Presentation Currency*

The financial statements of each of the Company's subsidiary are prepared in the local currency of its home jurisdiction. Consolidation of the subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. The subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate the subsidiary's financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive income (loss) presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive income (loss).

##### *Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive income (loss).

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### ***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 July 1, 2012, 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. Early 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. Early 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. Early application is permitted. IFRS 13 defines fair value, sets out in a single IFRS 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.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 4. AMOUNTS RECEIVABLE

	December 31, 2012		June 30, 2012	
Canadian federal sales tax recoverable	\$	19,852	\$	10,981
Interest receivable		6,614		5,110
Other		2,928		-
	\$	<u>29,394</u>	\$	<u>16,091</u>

### 5. PREPAID EXPENSES AND DEPOSITS

	December 31, 2012		June 30, 2012	
Consulting	\$	12,500	\$	14,000
Investor relations		29,500		24,974
Insurance		14,731		6,620
Other		9,362		9,974
	\$	<u>66,093</u>	\$	<u>55,568</u>

### 6. EQUIPMENT

	Six months ended December 31, 2012		
	Computer equipment	Office and field equipment	Total
Costs			
<b>Balance July 1, 2012</b>	\$ 31,410	\$ 30,525	\$ 61,935
Additions	-	-	-
<b>Balance, Dec. 31, 2012</b>	<u>31,410</u>	<u>30,525</u>	<u>61,935</u>
Depreciation and cumulative impairment losses			
<b>Balance July 1, 2012</b>	13,136	10,300	23,436
Depreciation	2,686	1,874	4,560
<b>Balance, Dec. 31, 2012</b>	<u>15,822</u>	<u>12,174</u>	<u>27,996</u>
<b>Carrying amount at Dec. 31, 2012</b>	<u>\$ 15,588</u>	<u>\$ 18,351</u>	<u>\$ 33,939</u>

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 6. EQUIPMENT - continued

	Year ended June 30, 2012		
	Computer equipment	Office and field equipment	Total
Cost			
<b>Balance, July 1, 2011</b>	\$ 29,678	\$ 29,853	\$ 59,531
Additions	1,732	1,472	3,204
Disposals	-	(800)	(800)
<b>Balance, June 30, 2012</b>	<u>31,410</u>	<u>30,525</u>	<u>61,935</u>
Depreciation and cumulative impairment losses			
<b>Balance July 1, 2011</b>	5,788	5,765	11,553
Depreciation	7,348	4,535	11,883
<b>Balance, June 30, 2012</b>	<u>13,136</u>	<u>10,300</u>	<u>23,436</u>
<b>Carrying amount at June 30, 2012</b>	<u>\$ 18,274</u>	<u>\$ 20,225</u>	<u>\$ 38,499</u>

### 7. EXPLORATION AND EVALUATION ASSETS

#### Kilgore Gold Project

In July 2008, the Company entered into an option agreement 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. Initially, the Kilgore property covered 162 federal lode mining claims and the Hai and Gold Bug properties covered by 19 federal lode mining claims. 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.

Up to December 2010 and under the option agreement, 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 2,000,000 common 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 US \$ 250,000 in November 2011 to acquire a 100% interest.

**Oakley Project** – The Oakley Project consists of 2 properties – Blue Hill Creek and Cold Creek Gold, which are adjacent to each other. (See also Note 14)

#### 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.



# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 7. EXPLORATION AND EVALUATION ASSETS - continued

During the year ended June 30, 2011, Company paid a total of US \$ 88,000, issued 2,250,000 common shares (estimated fair value of \$ 1,155,000), and incurred US \$ 20,574 of exploration costs. Up to June 30, 2012, the Company had paid a total of US \$ 218,000 and has issued a total of 6,000,000 common shares to acquire an undivided 70% interest in BHC.

In August 2012, the Company waived its right to acquire the remaining 30% interest in BHC. The Company will be responsible for filing and paying all annual assessments and fees relating to BHC.

A 2.5% net smelter returns royalty ("NSR") will be paid to the vendors on production of gold from BHC. At any time, the Company may buy the NSR, or a portion thereof, for US \$ 1,000,000 per percentage point (i.e. \$ 2,500,000 for the entire NSR).

#### b) Cold Creek

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 paid US \$ 57,500, issued 200,000 shares, and incurred US \$ 247,000 of exploration expenditures during the years ended June 2009 to June 2012.

During the year ended June 30, 2012, the Company chose to terminate its option, and wrote off \$ 344,465 of cost relating to the Buckhorn property.

	Oakley Idaho	Kilgore Idaho	Total
BALANCE, June 30, 2012	\$ 3,145,861	\$ 12,001,138	\$ 15,146,999
ACQUISITION COSTS	-	-	-
EXPLORATION COSTS			
Drilling and assays	-	145,589	145,589
Geologists and contractors	15,794	224,559	240,354
Travel	1,221	37,560	38,781
Maintenance fees	15,209	35,863	51,072
Technical reports	-	4,037	4,037
Site office and field supplies	-	26,458	26,458
	<u>32,224</u>	<u>474,066</u>	<u>506,290</u>
BALANCE, Dec. 31, 2012	\$ <u>3,178,085</u>	\$ <u>12,475,204</u>	\$ <u>15,653,289</u>

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 7. EXPLORATION AND EVALUATION ASSETS - continued

	Year ended June 30, 2012			Total
	Oakley Idaho	Kilgore Idaho	Buckhorn Idaho	
BALANCE, July 1, 2011	\$ 3,136,713	\$ 8,557,932	\$ 325,438	\$ 12,020,083
ACQUISITION COSTS	-	291,310	12,500	303,810
EXPLORATION COSTS				
Drilling and assays	-	1,927,729	-	1,927,729
Geologists and contractors	4,273	738,013	526	742,812
Travel	-	150,878	-	150,878
Maintenance fees	4,875	34,127	6,001	45,003
Technical reports	-	175,786	-	175,786
Mapping and surveying	-	29,185	-	29,185
Site office and field supplies	-	96,178	-	96,178
	9,148	3,151,896	6,527	3,167,571
Impairment of exploration and evaluation assets	-	-	(344,465)	(344,465)
BALANCE, June 30, 2012	\$ 3,145,861	\$ 12,001,138	\$ -	\$ 15,146,999

### 8. COMMON SHARES

At December 31, 2012, the Company's authorized share capital consisted of an unlimited number of voting common shares without par value.

In March and April 2012, the Company completed a non-brokered private placement in two tranches totaling 7,292,500 units at \$ 0.20 for gross proceeds of \$ 1,458,500. 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 \$ 68,075 were paid and 340,375 finder's warrants were issued, exercisable at \$ 0.30 for 18 months.

At the Company's Annual General Meeting held in December 2012, shareholders approved 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.

Details of share purchase warrant transactions during the six months ended December 31, 2012 and the year ended June, 2012 are as follows:

	Six months ended December 31, 2012	Year ended June 30, 2012
Outstanding, beginning of period	7,007,733	9,883,378
Issued	-	3,986,625
Expired	(3,021,108)	(6,862,270)
Outstanding, end of period	3,986,625	7,007,733

As at December 31, 2012, the Company has outstanding share purchase warrants as follows:

Number	Exercise	Expiry date
3,986,625	0.30	September and October 2013

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 9. SHARE-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.

Share options transactions during the six months ended December 31, 2012 and during the year ended June 30, 2012 are as follows:

	Options Outstanding	Weighted average exercise price
Outstanding, June 30, 2011	3,335,000	\$ 0.43
Awarded	800,000	0.30
Expired	(300,000)	0.51
Cancelled	(800,000)	0.70
Outstanding, June 30, 2012	3,035,000	0.40
Awarded	2,000,000	0.15
Expired	(260,000)	0.20
Outstanding, Sept. 30 and June 30, 2012	<u>4,775,000</u>	<u>\$ 0.31</u>

The following is a summary of stock options outstanding at December 31, 2012:

Exercise price	Stock options outstanding	Stock options exercisable	Expiry dates
\$ 0.50	635,000	635,000	September 2013
0.40	310,000	310,000	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
0.50	150,000	150,000	September 2012
0.52	25,000	25,000	December 2015
0.50	50,000	50,000	June 2016
0.30	800,000	800,000	November 2016
0.15	2,000,000	2,000,000	October 2017
	<u>4,775,000</u>	<u>4,775,000</u>	

The fair value of stock options awarded during the six months ended December 31, 2012 and during the year end June 30, 2012 was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2012	June 30, 2012
Risk-free interest rate	1.30%	1.26%
Expected volatility	81%	75%
Expected lives	5.0 years	5.0 years
Estimated Forfeiture rate	-	-

The average fair value of stock options awarded during the six months ended December 31, 2012 was \$0.12 and during the year ended June 30, 2012 it was \$ 0.18.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 9. SHARE-BASED COMPENSATION - continued

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

### 10. RELATED PARTY DISCLOSURES

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:

Six months ended December 31,	2012	2011
Management fees	\$ 75,000	\$ 75,000
Consulting fees	18,000	19,075
Corporate development and website design services	-	4,500
	<u>\$ 93,000</u>	<u>\$ 98,575</u>

As at December 31, 2012, \$ 3,600 (2011 - \$ 4,400) remained unpaid and has been included in accounts payable and accrued liabilities. As at December 31, 2012 \$ 12,500 (2011 - \$ 14,000) were prepaid and are included in prepaid expenses and deposits.

### 11. FINANCIAL INSTRUMENTS

#### a) Fair value

The Company's financial instruments include cash, accounts receivable, reclamation deposits and accounts payable and accrued liabilities. IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

- Level 1 – applied to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – applies to assets or liabilities for which there are unobservable market data.

The recorded amounts of cash, accounts receivable, reclamation deposit, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature. The recorded amounts of non-current reclamation deposit is not readily measureable.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 11. FINANCIAL INSTRUMENTS - continued

Cash is measured using Level 1 inputs.

#### b) Credit Risk

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.

#### c) Foreign Exchange Rate Risk

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.

At December 31, 2012 and June 30, 2012, the Company held foreign currency denominated financial assets and liabilities as follows:

	<u>December 31, 2012</u>	<u>June 30, 2012</u>
<b>Financial Assets</b>		
Canadian dollars	\$ 991,575	\$ 1,709,645
United States dollars	<u>8,805</u>	<u>5,857</u>
	<u>\$ 1,000,380</u>	<u>\$ 1,715,502</u>
	<u>December 31, 2012</u>	<u>June 30, 2012</u>
<b>Financial Liabilities</b>		
Canadian dollars	\$ 18,660	\$ 7,620
United States dollars	<u>137,962</u>	<u>64,899</u>
	<u>\$ 156,622</u>	<u>\$ 72,519</u>

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 11. FINANCIAL INSTRUMENTS - continued

The following table discusses the Company's sensitivity to a 10% increase or decrease in the Canadian dollar (CDN) against the United States dollar denominated financial assets and financial liabilities above. The sensitivity analysis measures the effect from recalculation of these items as at the balance sheet date by using adjusted foreign exchange rates.

	CDN appreciation by 10%	CDN depreciation by 10%
June 30, 2012		
<b>Comprehensive loss</b>		
Financial assets	\$ (542)	\$ 663
Financial liabilities	6,007	(7,342)
December 31, 2012		
<b>Comprehensive loss</b>		
Financial assets	\$ (973)	\$ 796
Financial liabilities	12,478	(15,251)

The exposure to foreign exchange rate risk is considered minimal.

#### d) **Liquidity Risk**

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. All of the Company's financial liabilities are classified as current and the Company has a practice of paying their outstanding payables within 30 days.

#### e) **Price Risk**

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and evaluation activities is subject to risks associated with fluctuations in the market price of commodities.

#### f) **Interest Risk**

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.

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

### 12. CAPITAL RISK MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to explore its exploration and evaluation assets.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk of characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow and acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's policy is to invest its excess cash, if any, in highly liquid, short-term, interest bearing investments with maturities of one year or less from the date of acquisition.

### 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 3 to the consolidated financial statements.

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

	Six months ended December 31, 2012		
	Canada	United States	Total
Total assets	\$ 995,945	\$ 15,711,234	\$ 16,707,179
Exploration and evaluation assets	-	15,653,288	15,653,288
Net income (loss)	(548,820)	(34,153)	(582,973)
Equipment additions	-	-	-
Depreciation of equipment	730	3,830	4,560

  

	Year ended June 30, 2012		
	Canada	United States	Total
Total assets	\$ 1,773,508	\$ 15,209,185	\$ 16,982,693
Exploration and evaluation assets	-	15,146,999	15,146,999
Net income (loss)	(762,482)	(464,055)	(1,226,537)
Equipment additions	1,733	1,473	3,206
Depreciation of equipment	1,691	10,192	11,883

# Otis Gold Corp.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

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### 14. EVENTS AFTER THE REPORTING PERIOD

- a) The Company signed a Letter of Intent to Joint Venture its Oakley Project ("Oakley") with Lateral Gold Corp. ("Lateral"). The agreement allows Lateral to earn up to an initial 70% interest in Oakley in exchange for a combination of cash, property expenditures and Lateral shares as follows:

Year	Cash	Shares	Work Commitments
2013 (agreement)	\$15,000 (paid)		
2013 (TSXV approval)	\$35,000	200,000	\$300,000
2014	\$115,000	250,000	\$700,000
2015	\$250,000	500,000	\$1,300,000
2016	\$250,000	1,500,000	\$1,500,000
2017	\$250,000	2,500,000	\$1,900,000

The agreement also requires that Lateral shall provide NI 43-101 compliant Resort Estimates on or before both the 3<sup>rd</sup> & 4<sup>th</sup> anniversary dates and a Preliminary Economic Assessment by the 5<sup>th</sup> anniversary date, at which time the 70% interest will have been earned.

Upon Lateral earning a 70% interest, the agreement provides Lateral with an additional option to earn a further 10% in exchange for \$1,500,000 in cash (\$500,000 to be paid within 90 days of earning its 70% interest and a further \$1,000,000 to be paid within 24 months of earning its 70% interest), and 2,000,000 Lateral common shares (500,000 shares to be issued within 90 days of earning its 70% interest and a further 1,500,000 shares to be issued within 24 months of earning its 70% interest).

Upon earning an 80% interest, Lateral has a right to earn the final 20% interest in exchange for the issuance of an additional 5,000,000 Lateral shares and a cash payment based on a multiple of any NI 43-101 inferred gold ounces contained in a NI 43-101 Report to be filed with the TSX Venture Exchange in conjunction with its approval of this agreement, with both to be made within 6 months of achieving the 80% interest. Additionally, an NSR of 2.5% will be issued in favour of Otis in connection with any lands subject to this agreement that are not already encumbered by royalty agreements.

- b) The Company purchased the remaining 30% interest in the Blue Hill Creek property in exchange for
- \$20,000 payable within 14 days of regulatory approval, for a 10% interest; and
  - \$60,000 within 10 days of the receipt of the \$115,000 payment due in 2014 from Lateral for the remaining 20% interest.