



Otis Gold Corp: OOO-La-La

A Monday Morning Musing from Mickey the Mercenary Geologist

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I hoofed the kilometer from my hotel to one of the best steakhouses in Toronto's financial district. I told the greeter who I was and who I was meeting. She said I was the first of the party to arrive, not surprising since I was 10 minutes early, so I did the usual: Went to the bar and ordered a drink.

The meeting was set up by someone who I did not know with two guys I had never met. I usually don't take these meetings sight unseen. But the company has an investor and part time IR guy who is one of my subscribers. He contacted me via email and phone with a compelling story and their board has a director who I know and respect as a geologist and businessman. So I did a little due dili, my three key criteria were positive, and it convinced me that this particular issuer might be undervalued and worth a look-see.

Besides, I didn't have a date that night and it was an opportunity to eat a good steak, drink a nice bottle of red wine, and get to know a couple of interesting players in our business. Plus they were footing the bill, so why not?

But I digress. Fifteen minutes later I ordered another drink and called the company rep in Calgary. He said the two gentlemen I was meeting should be there any minute. Another 15 minutes went by so I ordered a third drink. It was now 8 o'clock and I was starting to wonder what was up and whether I should just walk back to the hotel and order room service.

Then I heard a guy on his cell phone at the opposite end of the bar say: "Yeah we got here early, we've been here for 45 minutes, and he still hasn't shown up."

So I got up from the stool, walked 20 feet to the other end of the bar and introduced myself to the two gentlemen. We had been looking at each other for at least 40 minutes. The clueless greeter had thrown us a roundhouse curve ball and we had all swung and missed.

From that auspicious beginning, I had an interesting discussion over a very nice dinner with Craig Lindsay, the CEO/President and Mike Belantis, the director of corporate development for a Vancouver junior called Otis Gold Corp. It has a cool stock symbol: OOO.V: Hard to forget that.

Let's take a detailed look at **Otis Gold (OOO.V)** with share structure first:

Otis Gold was listed as a capital pool company in late November 2007 and completed its qualifying transaction in mid July 2008. It has 26.4 million shares outstanding and 33.4 million fully diluted. The total includes 1.5 million in options to insiders with prices from 20 to 50 cents and expiries up to October 2014. Out-of-the-money warrants include 1.8 million at 90 cents that expire in July 2010 and 3.7 million that can be exercised at 90 cents prior to November 2010 or at \$1.25 prior to November 2011.

Management, family, and friends control about 21% of the stock and institutions in North America and Europe own about 23%. The public stock float is estimated at 56% or about 15 million shares.

The company has good liquidity with recent volume of about 400,000 shares per week. Its 52 week high/low is 83 to 23 cents, the 30 day is 63 to 47 cents, and it is currently trading in the high 40 to low 50 cent range. Market capitalization is about \$13 million and current working capital is \$4.0 million. The corporate burn rate is low at a little over \$50,000 per month.

Here's the two year chart:



Otis Gold Corp's stock rose in price after the qualifying transaction was announced in April 2008. Like all its kin, the company was brutalized during the global financial crisis from early July until year-end 2008. It was generally on the uptick on low volumes until early March 2009 and then flattened and backed off last spring.

A financing at 25 cents was announced in early May 2009 and was followed by a rising share price. Drilling began in mid-summer and the financing was closed. Positive drill results in early October triggered a forced conversion of warrants and was concurrent with another financing at 65 cents in late October. Subsequently the price was driven down over the course of the next month to 50 cents on high volumes as the 25c private placement became free trading. Since that time Otis Gold's price has been flat except for short spikes in mid December and early February when positive exploration results were released. It trades in the high 40 to mid 50 cent range.

As mentioned above, a representative of Otis Gold pursued me. This is not an uncommon occurrence and I summarily reject the vast majority of these unsolicited contacts. In this case, I was attracted to the company's story because of its flagship project, the Kilgore deposit that was drilled previously by Pegasus Gold, Placer Dome, and Echo Bay Mines in the 1980s and '90s. The Echo Bay exploration program was under the direction of VP Don Ranta who I have known for a few years thru his involvement with two other meritorious juniors that I hold and cover, Animas Resources and Rare Element Resources.

Don is a Director of Otis Gold and is the geologist-businessman mentioned in the introduction. Other principals include CEO Craig Lindsay, a financier and investment banker with success in the junior sector, Director John Carden, Echo Bay's former US Exploration Director, CFO Bob Nowell, and Directors Norm Eloyfson and Sean Mitchell, both financiers.

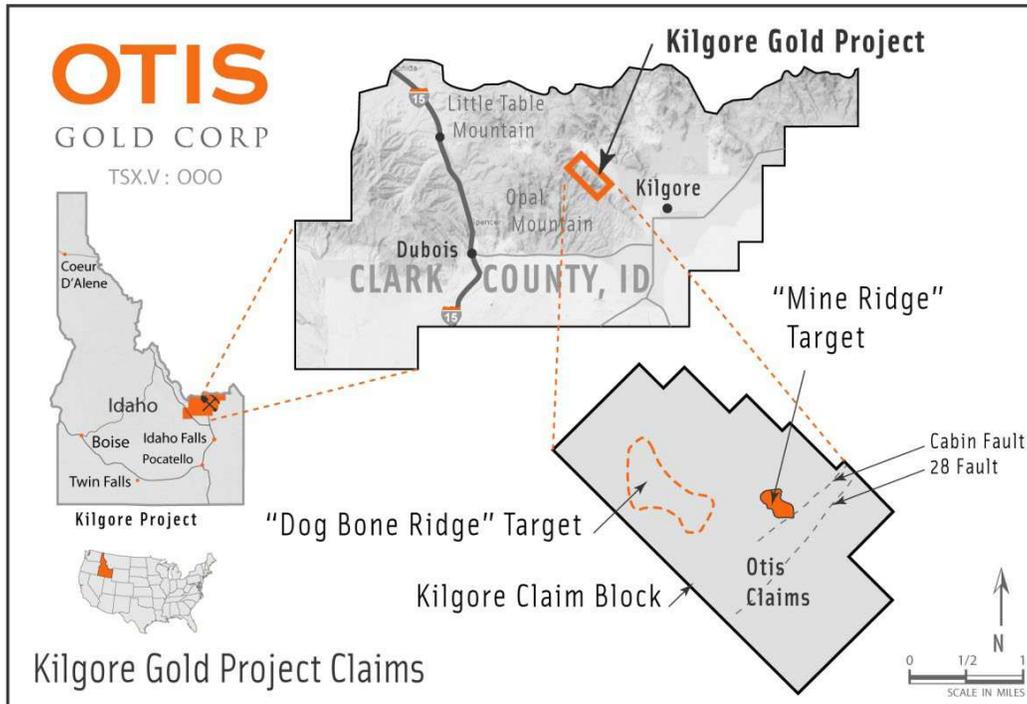
The technical team includes the aforementioned Carden, Chief Geologist Mitch Bernardi, and Senior Geologist Larry Pancoast; all previously worked on the Kilgore project for Echo Bay and have 30+ years exploration experience.

Clearly the people involved with OOO meet my expectations for a junior resource company.

Otis is a junior resource company focusing on precious metals projects in Idaho and Nevada. It currently has five projects in Idaho, including two with 43-101 qualified resources, and one in northern Nevada. The two resource projects include:

- **Kilgore** located in east-central Idaho with 7.0 million tonnes of 1.06 g/t Au or 218,000 indicated ounces and 9.7 million tonnes of 0.96 g/t Au or 269,000 inferred ounces of gold resources.
- **Oakley** located in south-central Idaho with a 14.4 million tonne resource grading 0.55 g/t Au giving 235,000 inferred ounces of gold.

The **Kilgore Project** is the company's main focus. OOO has a 75 % earn-in joint venture with Bayswater Uranium for \$200,000, 3.5 million shares, \$3 million in exploration over five years, and delivery of a pre-feasibility study.



The project comprises 162 mining claims covering 1300 ha and is located in sparsely populated Clark County, Idaho at about 2200 m elevation in gentle to moderate forested terrain.

Kilgore is a low sulfidation, epithermal hot springs deposit situated on the north margin of the Snake River Plain. Host rocks are volcanic tuffs and older sedimentary rocks along a ring-fracture zone of the Kilgore caldera. NE and NW structures control alteration and mineralization.

The deposit consists of high-grade bonanza veins surrounded by lower grade fracture and disseminated mineralization. Gold is associated with silicification, adularia, tourmaline, and minor polymetallic sulfides. There are two main targets: Mine Ridge, which hosts the current resource, and Dog Bone Ridge, which has significant gold intercepts and geophysical anomalies below hot springs sinters.

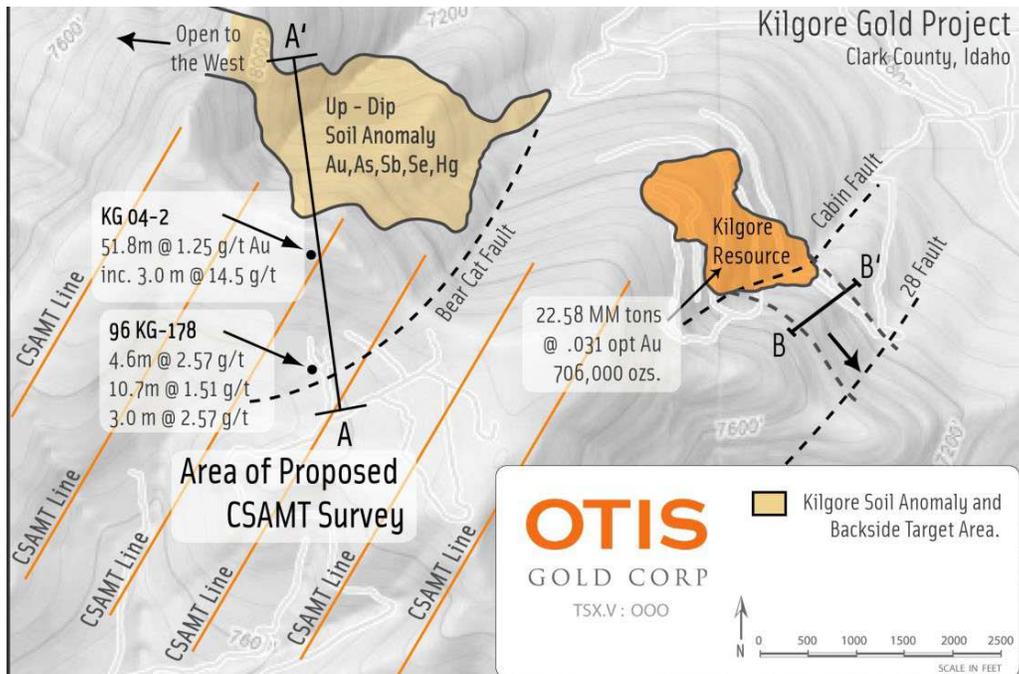
Mine Ridge has a 487,000 oz indicated and inferred gold resource and potential to expand bulk tonnage mineralization via infill drilling and step-outs to the west, northwest, south, and down dip. OOO's 4200 m of drilling in 2008 and 2009 concentrated on high grade structural targets that were largely ignored by previous operators. Results defined significant intervals with grades much higher than the qualified resources with an average grade of about 1.0 g/t Au. The best intercepts at Mine Ridge include the following widths and grades:

<u>Width (m)</u>	<u>Grade (g/t Au)</u>
27.4	37.0
6.1	54.7
7.7	7.4
22.9	7.6
13.7	11.4
8.3	13.0
7.6	19.1

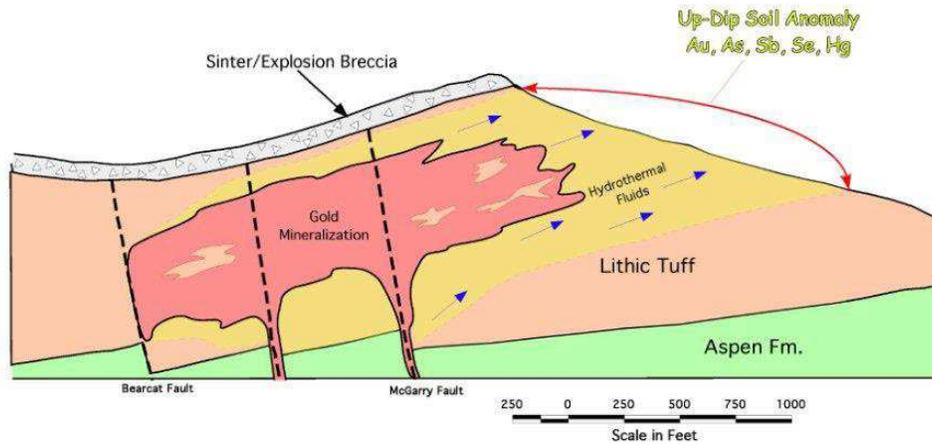
These drill intercepts are important because they indicate wide zones of high grade gold exist at Kilgore. There could be a high grade core to the deposit and possibly a starter pit to accelerate payback of capital costs if a mining operation proves economically viable. However, that's pure speculation at this juncture, and let's not get ahead of ourselves.

Preliminary metallurgical column tests at Mine Ridge by Echo Bay indicated good gold recoveries including 95% in oxidized material, 81% in mixed, and 64% in sulfide mineralization. These historic results are certainly encouraging and additional metallurgical testing is on-going.

Dog Bone Ridge is a blind target with historic drilling indicating strong gold mineralization beneath cover:



Otis Gold's cross-section model for Dog Bone Ridge mineralization is shown below:



Kilgore Gold Project

Clark Co., Idaho
Cross Section A-A'
Looking West

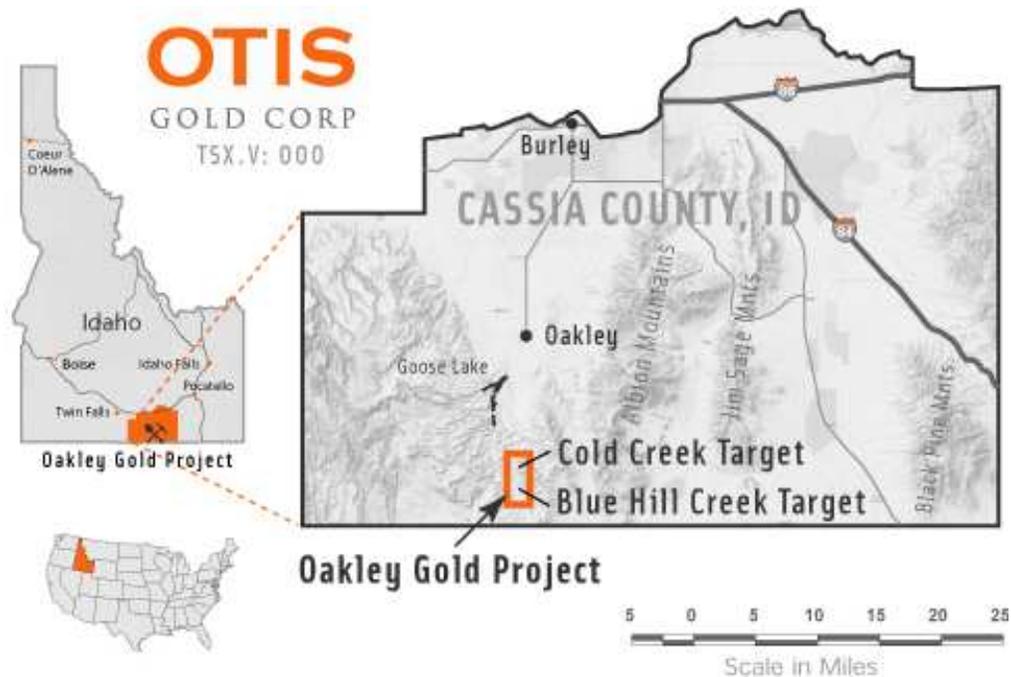
A recently completed CSMAT geophysical survey at Dog Bone Ridge defined low resistivity clay alteration haloes surrounding highly resistant “knots” of silicification. Some of these high resistivity anomalies were confirmed by previous drilling to host high grade gold intercepts (see plan map above).

Let me explain the significance: Low sulfidation epithermal systems commonly consist of high grade gold-bearing veins surrounded by broad argillic (geology-speak for “clay mineral”) zones. Based on this model, the Dog Bone is a high priority target to host a deposit similar to Mine Ridge.

Otis' 2010 exploration and development program at Kilgore has a \$2.5 million budget and consists of the following:

- Bench scale metallurgical column tests on Mine Ridge mineralization, already in progress.
- 7000-8000 m of core and reverse circulation drilling beginning in June 2010.
- Resource delineation at Mine Ridge and scout holes on Dog Bone Ridge targets.
- Commencement of a pre-feasibility study on the Mine Ridge deposit in mid Q3.

OOO's **Oakley Project** is located in Cassia County, Idaho, approximately 25 km south of the town and immediately north of the Utah-Nevada border. It comprises 107 claims and Utah state leases totaling 1400 ha. Oakley is an epithermal hot spring gold project with two target areas: Blue Hill Creek and Cold Creek.



The **Blue Hill Creek** target has a 43-101 inferred resource of 235,000 ounces and is open along strike and down dip. It was discovered by Meridian Minerals in 1985 and has 3450 m of reverse circulation drilling in 26 holes by Meridian, WestGold, and Latitude Minerals. Otis can acquire 100% of the property for six million shares and \$400,000 over five years.

Alteration is hosted by silica sinter, epiclastic sedimentary, and tuffaceous volcanic rocks. Gold mineralization is associated with disseminated pyrite and quartz veining. A zone 1000 m long and up to 300 m wide contains surface values up to 2 g/t Au and is controlled by N- and NE-trending high angle structures. Post-mineral faulting has displaced and buried mineralized sections to the northwest; some of these have not been drill tested.

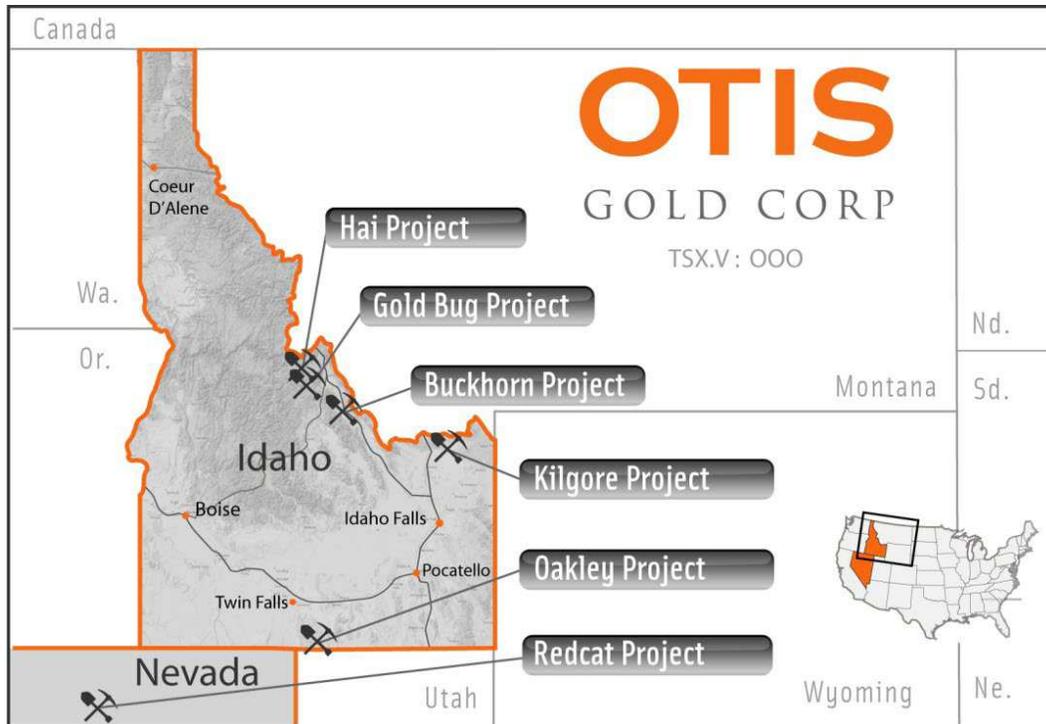
Twenty-two drill holes encountered extensive zones of silicification and gold mineralization, with ten holes bottoming in rock containing in excess of 0.3 g/t Au. Historic intercepts include 30 m of 1.0 g/t, 120 m of 0.58 g/t, 79 m of 0.82 g/t, and 30 m of 0.79 g/t Au. Otis Gold currently has five target areas that warrant drilling.

The **Cold Creek** target is located four km north of Blue Hill Creek and has an 85,000 oz historic gold resource. It too was discovered by Meridian and is in the same geological setting. The gold zone is at least 1500 m long, up to 600 m wide, and contains surface values up to 2 g/t Au.

Thirty-eight reverse circulation holes totaling 2800 m by Meridian and WestGold partially tested the target. Fifteen encountered zones of silicification with significant intercepts of near-surface mineralization greater than 0.6 g/t Au. Intercepts include 9 m of 2.2 g/t, 12 m of 1.6 g/t, 45 m of 0.68 g/t, and 78 m of 0.48 g/t Au.

Exploration potential and prospects for resource expansion are considered good by OOO geologists.

Otis Gold follows the prospect generator model which analysts, newsletter writers, and smart investors love. And in OOO's case, it has a flagship project to boot. So the corporate plan is to focus exploration dollars on the Kilgore project. The Oakley advanced exploration project and three other precious metals projects in Idaho and one in Nevada are available for joint venture:



With its current 43-101 qualified resources, Otis Gold Corp has the right to earn 75% of 218,000 indicated ounces gold, or 163,000 ounces, 75% of 269,000 inferred ounces gold or 202,000 oz, and 100% of 235,000 ounces gold. The present total 43-101 gold budget attributed to OOO is 600,000 ounces. With a market capitalization of \$13 million, the market is currently valuing Otis Gold's qualified resources at less than \$22 per ounce. Industry wide peer comparisons for pre-production, in-the-ground gold ounces are currently about \$85.

My conservative valuation does not account for historic resources that are not yet qualified and the strong exploration potential of its flagship project, the joint venture value of other projects, or the current working capital.

I must therefore conclude that Otis Gold is severely undervalued at its recent closing price of 50 cents.

Otis Gold will go to the market within the next few months for a major financing. Possible catalysts that can move the stock price in the near term include results of four pending drill holes from last fall's program at Kilgore and metallurgical test results. I expect both to be positive.

OOO is a junior resource explorer with attendant high risks in the potentially high reward junior resource sector:

- *Gold is where you find it.* Although the geological potential is high for Kilgore, the drill will determine if exploration finds more contained ounces in the ground or goes bust.
- Although preliminary results were favorable, additional metallurgical testing is required to determine gold recoveries in oxide, mixed, and sulfide mineralization.
- The above two factors, the price of gold, and general market conditions will determine if Otis can raise a substantial sum in its next financing with minimal dilution and monetize non-core assets by vending to joint venture partners.
- Geopolitical risk is always a concern in the forested mountains of the western United States. Permitting timelines, environmental opposition, and development schedules are difficult to predict. There have been no open pit gold mines permitted in Idaho for over 20 years.

Folks, you know I put my Mercenary money where my mouth is. I am a shareholder of Otis Gold Corp at an overall cost basis slightly higher than its current price. I have a vested interest in a higher stock price for the company.

You also know I only tell you what I have bought and not what or when I am going to buy or sell. I do not give investment advice.

For those readers new to my work, I wrote a musing detailing my investing philosophy and trading methodology in a bull market not long after launching my website ([Mercenary Musing, May 19, 2008](#)). As such, I think OOO has a strong chance of doubling within 12 months.

I will not tell you anymore than that. After all, this musing and all my writings and interviews are **free** for the public to read, hear, or see.

If you find the company intriguing, I encourage you to research it further and decide if it meets your individual criteria for speculation.

Otis Gold Corp: OOO-La-La.

P.S. Thanks, Peter, I owe you one.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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