

CASTLE RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS PERIOD ENDED DECEMBER 31, 2013 AND 2012

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed 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 condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CASTLE RESOURCES INC.
Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at

	December 31, 2013 \$	September 30, 2013 \$
ASSETS		
Current		
Cash	1,229,415	1,233,796
Amounts receivable (Notes 6 and 15)	388,556	372,163
Prepaid expenses	109,648	111,778
Total current assets	1,727,619	1,717,737
Long-term		
Prepaid expenses	105,174	116,638
Investments (Note 9)	14,625	73,125
Equipment (Note 7)	14,092	15,784
Exploration and evaluation assets (Note 8)	43,122,227	42,872,135
Total assets	44,983,737	44,795,419
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 15)	365,349	376,317
Other liabilities (Note 11)	248,500	78,000
Total current liabilities	613,849	454,317
Long-term		
Loan payable (Note 10)	2,679,148	2,611,125
Deferred tax liability	1,817,000	1,817,000
Total liabilities	5,109,997	4,882,442
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	51,929,973	51,606,188
Shares to be issued (Note 8)	25,000	-
Share based payments reserve (Note 14)	4,225,628	4,214,965
Warrants reserve (Note 13)	841,862	841,862
Deficit	(17,148,723)	(16,750,038)
Total shareholders' equity	39,873,740	39,912,977
Total liabilities and shareholders' equity	44,983,737	44,795,419

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
 COMMITMENTS AND CONTINGENCIES (Notes 1 and 18)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MIKE SYLVESTRE", Director

CASTLE RESOURCES INC.**Condensed Interim Consolidated Statements of Comprehensive Loss**

Expressed in Canadian dollars

For the three months period ended
December 31, 2013 December 31, 2012

\$

\$

Expenses

Consulting and management fees (Note 15)	205,569	160,682
Professional fees	12,773	37,125
Office and general (Note 15)	88,001	105,012
Due diligence costs	21,680	-
Transfer agent and listing fees	3,950	3,406
Share-based payments (Note 14)	10,663	-
Interest and financing fees (Note 10)	68,023	85,486
Depreciation costs	1,692	1,261

Total expenses	412,351	392,972
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Loss before the undernoted	(412,351)	(392,972)
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Interest income	4,166	2,201
Impairment and unrealized loss on investments (Note 9)	(58,500)	(1,080,000)

Net loss before income taxes	(466,685)	(1,470,771)
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Provision for income taxes		
Flow-through share premium (Notes 11)	68,000	98,130

Net loss and comprehensive loss for the period	(398,685)	(1,372,641)
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Loss per share

Basic and diluted	(0.00)	(0.01)
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Weighted average common shares outstanding

Basic and diluted	193,958,495	172,952,854
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CASTLE RESOURCES INC.
Condensed Interim Consolidated Statements of Changes in Equity
Expressed in Canadian dollars

	Common shares \$	Shares to be issued \$	Share based payments reserve \$	Warrants reserve \$	Deficit \$	Total shareholders' equity \$
Balance, October 1, 2013	51,606,188	-	4,214,965	841,862	(16,750,038)	39,912,977
Private placements	562,285	-	-	-	-	562,285
Flow-through share premium	(238,500)	-	-	-	-	(238,500)
Shares to be issued as advance royalty	-	25,000	-	-	-	25,000
Share-based payments	-	-	10,663	-	-	10,663
Loss for the period	-	-	-	-	(398,685)	(398,685)
Balance, December 31, 2013	51,929,973	25,000	4,225,628	841,862	(17,148,723)	39,873,740
	Common shares \$	Shares to be issued \$	Share based payments reserve \$	Warrants reserve \$	Deficit \$	Total shareholders' equity \$
Balance, October 1, 2012	45,254,084	-	3,751,436	3,183,678	(14,357,565)	37,831,633
Private placements	5,021,289	-	-	125,900	-	5,147,189
Flow-through share premium	(163,530)	-	-	-	-	(163,530)
Stock option expired	-	-	(43,452)	-	43,452	-
Warrants and broker warrants expired	-	-	-	(2,584,078)	2,584,078	-
Loss for the year	-	-	-	-	(1,372,641)	(1,372,641)
Balance, December 31, 2012	50,111,843	-	3,707,984	725,500	(13,102,676)	41,442,651

CASTLE RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
December 31, 2013 and 2012
Expressed in Canadian dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Castle Resources Inc. (the “Company”) was incorporated in Ontario, Canada on May 1, 2006. The Company's principal assets are Exploration and Evaluation Assets (“E&E”), made up of acquisition costs and deferred exploration expenditures for mining properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties contain economically recoverable reserves.

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 20 Victoria Street, Suite 800, Toronto, Ontario, Canada, M5C 2N8.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to complete additional financings, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require a material write-down of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

The Company needs equity capital and financing for its working capital and for the costs of exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. Because of the Company's continued losses, Management feels that there is a material uncertainty about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on February 27, 2014.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. The condensed interim financial statements do not include all of the information required for the full annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements of the Company as at and for the year ended September 30, 2013.

CASTLE RESOURCES INC.
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3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new accounting standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2014.

IFRS 9 Financial Instruments: Classification and Measurement (“IFRS 9”)

IFRS 9 was issued by the IASB in November 2009 with additions in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard is effective for the Company’s year-end beginning on January 1, 2015 but is available for early adoption.

IAS 32 Financial Instruments – Presentation (“IAS 32”)

IAS 32 was amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014 with retrospective application required. Earlier application is permitted.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards could have on future consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated 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 consolidated 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 the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for decommissioning obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants, investments and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

▪ **Assets’ carrying values and impairment charges**

In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

▪ **Capitalization of exploration and evaluation costs**

Management has determined that exploration and evaluation costs incurred and capitalized during the period have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

CASTLE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2013 and 2012

Expressed in Canadian dollars

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Mineral reserve estimates

Mineral reserve and mineral resource estimates are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as commodity prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

- Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environments in which the Company operates. Such changes are not within the Company's control and could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to, estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and timing of expenditure

The decommissioning and restoration cost estimates are updated annually during the life of a project to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Determination of economic viability of a project

Management has determined that costs associated with its exploration and evaluation assets have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of reported recovered quantities to proven and probable reserves, operating management expertise, existing permits and projected life of projects.

CASTLE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

December 31, 2013 and 2012

Expressed in Canadian dollars

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are generally determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Asset lives, depletion/depreciation rates for equipment

Depreciation and depletion expenses are allocated based on assumed asset lives and depletion/depreciation rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of loss.

- Contingencies

Refer to Notes 1 and 18.

5. SIGNIFICANT ACCOUNTING POLICIES

As required by the IASB, effective October 1, 2013, the Company adopted the following standards and amendments to IFRS:

IAS 1 Presentation of Financial Statements ("IAS 1")

IAS 1 has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has concluded that IAS 1 did not have a material impact on its consolidated financial statements on adoption on October 1, 2012.

IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

IFRS 7 was amended by the IASB in December 2011 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The Company's adoption of this amendment had no effect on its condensed interim consolidated financial statements.

CASTLE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 10 Consolidated Financial Statements (“IFRS 10”)

IFRS 10 was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after October 1, 2013. Earlier application is permitted. In October 2012, the IASB amended IFRS 10 to require investment entities to measure subsidiaries at fair value through profit or loss. The Company’s adoption of this amendment had no effect on its condensed interim consolidated financial statements.

IFRS 11 Joint Arrangements (“IFRS 11”)

IFRS 11 was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The Company’s adoption of IFRS 11 had no effect on its condensed interim consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint agreements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity’s interest in other entities, and the effects of those interests on the entity’s financial position, financial performance and cash flows. The Company’s adoption of IFRS 12 had no effect on its condensed interim consolidated financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The Company’s adoption of IFRS 13 had no effect on its condensed interim consolidated financial statements.

IFRIC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine (“IFRIC 20”)

IFRIC 20 was issued by the IFRIC in October 2011. IFRIC 20 applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 may represent a change in accounting practice for some Canadian mining entities. Specifically, IFRIC 20 permits capitalization of stripping costs if all of the following three criteria are met:

- probability of future economic benefit (improved access to the ore body) flowing to the entity;
- identifiability of the component of the ore body for which access has been improved; and
- measurability of the costs associated to the stripping activity.

Furthermore, where the costs of the stripping activity asset and of the inventory produced are not separately identifiable, IFRIC 20 provides a more detailed cost allocation guidance based on a relevant production measure that allows allocation between inventory produced and the stripping activity asset. The Company’s adoption of IFRIC Interpretation 20 had no effect on its condensed interim consolidated financial statements.

CASTLE RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
December 31, 2013 and 2012
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Castle Resources Mexico, SA de C.V.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, which are subject to an insignificant risk of changes in value. The Company does not hold any asset backed commercial paper.

(c) Foreign Currencies

The Company presents its consolidated financial statements in Canadian dollars. This is also the functional currency of the Company and its subsidiary.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payments note (Note 14).

The fair value is estimated at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

CASTLE RESOURCES INC.
Notes to the Condensed Interim Consolidated Financial Statements
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Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Share-based payments (continued)

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the estimated fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(e) Tax

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

(e) Tax (continued)

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(f) Exploration and evaluation assets

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all revenues received prior to the commencement of commercial production against the cost of the related claims. 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 claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. 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 profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Exploration and evaluation assets (continued)*

Upon transfer of “Exploration and evaluation costs” into “Mine development”, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is expected to be capitalised within “Mine development”. After production starts, all assets included in “Mine development” are transferred to “Producing Mines”.

(g) *Equipment*

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following annual rates:

Office furniture and equipment	-	20%, declining balance basis
Computer equipment	-	55%, declining balance basis
Computer software	-	100%, declining balance basis

(h) *Impairment of non-financial assets*

The carrying values of capitalized exploration and evaluation assets and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset’s recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset’s value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount of the asset to its estimated recoverable amount.

(i) *Financial instruments*

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, (i.e. the date that the Company commits to purchase or sell the asset).

The Company’s financial assets include cash, accounts receivable and investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in finance income and finance costs on the statements of loss.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Financial instruments (continued)*

The Company evaluates its financial assets at FVTPL to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVTPL using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The Company has classified its investments as FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive loss. The losses arising from impairment are recognized in the statement of loss and comprehensive loss. The Company has classified cash and amounts receivable as loans and receivable.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Financial instruments (continued)*

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the Condensed Interim Consolidated Financial Statements of loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities and loan payable.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statement of loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the Condensed Interim Consolidated Financial Statements of loss and comprehensive loss.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

The Company has classified its accounts payable and accrued liabilities and loan payable as other financial liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(j) Investment in Associates

An associate is an entity over which the Company has significant influence and is neither a controlled subsidiary nor a jointly controlled entity. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

The Company accounts for its equity investment using the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings or losses of the associate, and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings or losses of associates are recognized through net income or loss during the year. Cash distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment in the associate.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the greater of its fair value less costs to sell and value in use (i.e. present value of its future cash flows). If the recoverable amount of an investment in associate is less than its carrying amount, then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of the recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through net income or loss in the period that the reversal occurs.

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5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Capital Stock

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company separates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) capital stock. Upon expenses being incurred, the Company derecognizes the premium liability and recognizes a deferred tax liability for the amount of tax reduction renounced to shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision, to the extent that tax assets exist. If no tax assets exist, the related tax will be recorded in taxes payable.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's fiscal period is disclosed separately as a commitment.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, these taxes are included as Office and general in the statement of loss.

(m) Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the year. For all years presented, the loss available to common shareholders equals the reported loss. The diluted loss per calculation assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive.

6. AMOUNTS RECEIVABLE

	December 31, <u>2013</u>	September 30, <u>2013</u>
GST/HST recoverable	\$ 27,495	\$ -
Refundable exploration tax credits	259,358	259,358
Receivable on sale of Elmtree Property (Notes 9)*	-	-
Other receivable	<u>101,702</u>	<u>112,804</u>
Balance	<u>\$ 388,555</u>	<u>\$ 372,162</u>

* During fiscal 2013, due to liquidity issues from Winston Resources Inc., management established a provision of \$500,000 against the receivable amount. Management believes that the amount is still owed by Winston Resources Inc. and is in the process of discussions in attempts to collect this amount.

CASTLE RESOURCES INC.

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7. EQUIPMENT

(a) Cost

	Office furniture and equipment \$	Computer equipment \$	Computer software \$	Total \$
Balance, October 1, 2012	17,002	15,118	8,227	40,347
Additions	-	8,546	4,430	12,976
Balance, September 30, 2013	17,002	23,664	12,657	53,323
Additions	-	-	-	-
Balance, December 31, 2013	17,002	23,664	12,657	53,323

(b) Accumulated depreciation

	Office furniture and equipment \$	Computer equipment \$	Computer software \$	Total \$
Balance, October 1, 2012	7,199	10,551	8,227	25,977
Depreciation	1,961	7,017	2,584	11,562
Balance, September 30, 2013	9,160	17,568	10,811	37,539
Depreciation	392	838	462	1,692
Balance, December 31, 2013	9,552	18,406	11,273	39,231

	Office furniture and equipment \$	Computer equipment \$	Computer software \$	Total \$
Balance, September 30, 2013	7,842	6,096	1,846	15,784
Balance, December 31, 2013	7,450	5,258	1,384	14,092

8. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consisted of the following:

Granduc Claims, British Columbia, Canada

Balance at October 1, 2012	\$ 40,029,762
Acquisition costs	50,000
Capitalized costs	3,051,731
Less: refundable exploration tax credits	<u>(259,358)</u>
Balance at September 31, 2013	\$ 42,872,135
Acquisition costs	50,000
Capitalized costs	<u>200,092</u>
Balance at December 31, 2013	<u>\$ 43,122,227</u>

CASTLE RESOURCES INC.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

The Granduc Project, British Columbia, Canada

On October 15, 2010, the Company acquired a 100% interest in the Granduc Claims ("the Granduc Project"). The acquisition supersedes the option agreement dated July 16, 2010. Pursuant to the agreement, in addition to amounts previously paid in accordance with the superseded option agreement related to the Granduc Project, the Company paid Bell Copper Corporation an additional \$2,000,000 and issued an additional 2,750,000 common shares of the Company (issued in October 2010 with a value of \$1,375,000 based on the quoted market price of the Company's shares) for an aggregate acquisition price (including amounts paid pursuant to the superseded option agreement) of \$4,500,000 and 3,000,000 common shares of the Company.

On August 16, 2011, the Company completed an acquisition of a mining claim located in the Skeena mining division in British Columbia. The claim is related to the Granduc Project. In connection with this acquisition, the Company paid cash consideration in the amount of \$20,000, issued an aggregate of 94,118 common shares of the Company (valued at \$80,000 based on the quoted market price of the Company's shares), and granted a 2% NSR over the acquired claim.

Company paid cash consideration in the amount of \$20,000, issued an aggregate of 94,118 common shares of the Company (valued at \$80,000 based on the quoted market price of the Company's shares), and granted a 2% NSR over the acquired claim.

The Granduc Project is subject to a 2% Net Smelter Royalty ("NSR") in respect of certain mineral claims. The NSR can be purchased for \$500,000 for the first one percent (1%) and \$1 million for the remaining one percent (1%).

The Granduc Project is also subject to a 1.5% NSR in respect of certain mineral claims. The Company will also make annual payments of \$25,000 and \$25,000 worth of common shares (based on the average price of the shares over the previous 10 trading days prior to issuance) until the related mineral claims lapse or are put into commercial production. As of December 31, 2013, the Company has paid \$75,000 cash and issued 220,069 common shares. Included in accounts payable and accrued liabilities and shares to be issued were \$25,000 and 500,000 common shares at a price of \$0.05 per share, respectively, related to fiscal 2014 payments.

In January 2014, the Company issued 500,000 common shares of the Company with a fair value of \$0.05 per share and paid \$25,000 as per option agreement.

9. INVESTMENTS

The Company's investments consist of the following:

	December 31, 2013		September 30, 2013	
	Number	Value of	Number of	Value of
	Shares	investments	shares	investments
		\$		\$
Winston Resources Inc.	900,000	9,000	900,000	9,000
Zara Resources Inc.	720,000	-	720,000	25,200
Leo Resources Inc.	360,000	-	360,000	3,600
Hadley Mining Inc.	720,000	-	720,000	7,200
GreenBank Capital Inc. *	1,400,778	-	7,003,891	-
CNRP Mining Inc.	562,500	5,625	562,500	28,125
Total investments		14,625		73,125

* Effective November 15, 2013, GreenBank Capital Inc. consolidated its common shares on the basis of one (1) "new" common share for five (5) "old" common shares.

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9. INVESTMENTS

Winston Resources Inc. (“WRW or Winston”)

On June 22, 2012, pursuant to a purchase and assignment agreement entered into on April 30, 2012 between the Company and CNRP Mining Inc. (“CNRP”), the Company received 18,000,000 common shares of CNRP as partial consideration for the sale of the Company’s 60% interest in the Elmtree Gold Property. The CNRP shares were subsequently exchanged for common shares of WRW on a one-for-one basis pursuant to a reverse takeover transaction plan of arrangement involving CNRP and WRW.

In connection with the April 30, 2012 purchase and sale agreement (Note 8), and in addition to the receipt of WRW common shares, the Company will also receive:

- (i) Cash payments of \$500,000 over a 12 month period; and
- (ii) a 3% NSR interest on the Elmtree Deposit.

Pursuant to the agreement with CNRP, until the earlier of the completion of the distribution of these common shares to the shareholders of the Company, or June 22, 2014, the Company will:

- (i) assign all of its voting rights in and to these common shares to an officer of CNRP; and
- (ii) not sell any of these common shares to any third party without the prior consent of CNRP.

The original fair value of the 18,000,000 WRW common shares was \$4,500,000 using the quoted market price of WRW on the closing date (June 22, 2012). The investment in WRW is accounted for at fair value through profit and loss.

On April 25, 2013, Winston directors approved a share consolidation of its common share on the basis of one (1) new common share for twenty (20) common shares effective May 15, 2013. Following consolidation and subject to rounding, the Company now has 900,000 common shares with the fair value of \$9,000 using the quoted market price as at December 31, 2013. For the three months period ended December 31, 2013, the Company recorded an aggregated unrealized loss of \$nil (2012 – \$1,080,000).

GreenBank Capital Inc. (“GreenBank”)

On April 16, 2013, the Company received 7,003,891 common shares of GreenBank Capital Inc. (“Greenbank”) as a result of a transfer of shares to shareholders of WRW as a dividend in kind under a plan of arrangement effective the same date. The shares ownership represents 27.2% of the issued and outstanding capital of the GreenBank. The investment in GreenBank is accounted for on an equity basis. GreenBank shares declined from \$0.10 (April 16, 2013) to \$0.005 (September 30, 2013) per common share. As a result, the Company wrote-down the investment in GreenBank to a nominal value at the end of September 2013.

As at December 31, 2013, Greenbank shares have increased to \$0.25 per common share. Given the wide fluctuation in share price, management determined that it is premature to consider the increase in value is other than temporary. As a result, the Company continues to record the investment at a nominal value.

GreenBank have a 38% ownership interest in Zara, a 38% ownership in Leo, and a 49% ownership interest in Hadley. The Company has significant influence over GreenBank and therefore, the Company accounts for Zara, Leo and Hadley investment on an equity basis at the effective date of distribution of GreenBank’s common shares. GreenBank is a corporate finance investment business focusing on investing in Canadian small cap publicly listed companies. GreenBank is listed on the Canadian National Stock Exchange under the ticker symbol GBC.

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9. INVESTMENTS (continued)

Zara Resources Inc. (“ZRI or Zara”)

In December 2012, the Company received 720,000 common shares of Zara Resources Inc. as a dividend in kind from WRW under a plan of arrangement. Zara is listed on the Canadian National Stock Exchange under the ticker symbol ZRI.

The Company has significant influence over Zara through its ownership interest in GreenBank, and therefore accounts for Zara investment on an equity basis at the effective date of distribution of GreenBank’s common shares, and subsequently increased or decreased for the Company’s share of earnings or losses.

Zara’s shares declined from \$0.10 (December 7, 2012) to \$0.04 (December 31, 2013) per common share. As a result, the Company wrote-off the investment in Zara at December 31, 2013.

Leo Resources Inc. (“LEO or Leo Resources”)

In April 2013, Leo Resources was spun off from Zara by way of a statutory plan of arrangement and as a result, the Company received 360,000 common shares of Leo Resources Inc. Leo is listed on the Canadian National Stock Exchange under the ticker symbol LEO.

The Company has significant influence over Leo through its ownership interest in GreenBank, and therefore accounts for Leo investment on an equity basis at the effective date of distribution of GreenBank’s common shares, and subsequently increased or decreased for the Company’s share of earnings or losses.

Leo continued to experience losses and the Company’s share of losses exceed the initial investment value. Therefore, the Company wrote-off the investment in Leo at December 31, 2013.

Hadley Mining Inc. (“HM or Hadley”)

In December 2012, the Company received 720,000 common shares of Hadley Mining Inc. as a dividend in kind under a plan of arrangement. Hadley is listed on the Canadian National Stock Exchange under the ticker symbol HM.

The Company has significant influence over Hadley through its ownership interest in GreenBank, and therefore accounts for Hadley investment on an equity basis at the effective date of distribution of GreenBank’s common shares, and subsequently increased or decreased for the Company’s share of earnings or losses.

Hadley’s shares declined from \$0.10 (December 7, 2012) to \$0.03 (December 31, 2013) per common share. As a result, the Company wrote-off the investment in Hadley at December 31, 2013.

CNRP Mining Inc. (“CND or CNRP”)

On April 17, 2013, the Company received 562,500 common shares of CNRP as a result of a transfer of shares to shareholders of WRW. as a dividend in kind under a plan of arrangement effective the same date. CNRP is listed on the Canadian National Stock Exchange under the ticker symbol CND. The investment in CNRP is accounted for at fair value through profit and loss.

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10. LOAN PAYABLE

On July 14, 2010, the Company entered into a 5-year, non-revolving term loan facility in the principal amount of \$2,200,000 with interest payable at the rate of 5% in the first 12 months and 9% in the following 48 months. The facility is repayable on July 14, 2015.

The facility is secured against all of the Company's assets. The facility was subject to a 10% discount amounting to \$220,000. As a result, total proceeds to the Company amounted to \$1,980,000.

In connection with the financing, the Company issued 3,600,000 drawdown warrants and 300,000 standby warrants. The estimated fair value of the drawdown warrants of \$216,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 168%, a risk-free interest rate of 2.56% and an expected life of 5 years. Each drawdown warrant is exercisable into one common share and one-half warrant at a price of \$0.25 for a period of 5 years. The estimated fair value of the standby warrants of \$15,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 185%, a risk-free interest rate of 1.56% and an expected life of 2 years. Each standby warrant was exercisable into one common share at a price of \$0.20 for a period of 2 years. The 300,000 standby warrants were exercised during the year ended September 30, 2011.

The value of the warrants and the discount was recorded against the loan to be accreted over the term of the loan. During the three months period ended December 31, 2013, the Company recorded \$68,023 (December 31, 2012 - \$68,023) interest, accretion and financing fees in the condensed interim consolidated financial statements of loss.

11. OTHER LIABILITIES

	Liability incurred on flow-through shares issued \$	Settlement of flow- through liability on incurring expenditures \$	Balance, ending \$
September 30, 2013			
Issued on October 2, 2012 ⁽ⁱ⁾	163,550	(163,550)	-
Issued on March 15, 2013 ⁽ⁱⁱ⁾	166,668	(131,668)	35,000
Issued on June 27, 2013 ⁽ⁱⁱⁱ⁾	43,000	-	43,000
	373,218	(295,218)	78,000
December 31, 2013			
Issued on March 15, 2013 ⁽ⁱⁱ⁾	166,668	(166,668)	-
Issued on June 27, 2013 ⁽ⁱⁱⁱ⁾	43,000	(33,000)	10,000
Issued on December 9, 2013 ^(iv)	178,500	-	178,500
Issued on December 20, 2013 ^(v)	60,000	-	60,000
	448,168	(199,668)	248,500

⁽ⁱ⁾ On October 2, 2012, the Company issued 8,177,500 flow-through shares at a price of \$0.21 per share for total proceeds of \$1,717,275 which must be used for qualifying exploration expenditures and to be renounced to the flow-through shareholders effective December 31, 2013. The Company had incurred the required qualifying exploration expenditure as at December 31, 2013.

⁽ⁱⁱ⁾ On March 15, 2013 the Company issued 6,666,722 flow-through shares at a price of \$0.135 per share for total proceeds of \$900,007 which must be used for qualifying exploration expenditures and to be renounced to the flow-through shareholders effective December 31, 2014. The Company had incurred the required qualifying exploration expenditure as at December 31, 2013.

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11. OTHER LIABILITIES (continued)

⁽ⁱⁱⁱ⁾ On June 27, 2013 the Company issued 2,857,142 flow-through shares at a price of \$0.07 per share for total proceeds of \$200,000 which must be used for qualifying exploration expenditures and to be renounced to the flow-through shareholders effective December 31, 2014. The Company had spent approximately \$155,000 of the required qualifying exploration expenditure as at December 31, 2013.

^(iv) On December 9, 2013 the Company issued 7,142,856 flow-through shares at a price of \$0.07 per share for total proceeds of \$500,000 which must be used for qualifying exploration expenditures and to be renounced to the flow-through shareholders effective December 31, 2014. The Company had not spent any of the required qualifying exploration expenditure as at December 31, 2013.

^(v) On December 20, 2013 the Company issued 2,000,000 flow-through shares at a price of \$0.07 per share for total proceeds of \$140,000 which must be used for qualifying exploration expenditures and to be renounced to the flow-through shareholders effective December 31, 2014. The Company had not spent any of the required qualifying exploration expenditure as at December 31, 2013.

12. CAPITAL STOCK

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

Common shares

	Number #	Amount \$
Balance at October 1, 2012	145,277,401	45,254,084
Private placement ⁽ⁱ⁾	27,979,579	5,479,670
Share issue costs	-	(458,361)
Flow-through share premium (Note 11)	-	(163,550)
Shares issued as advance royalty (Note 8)	119,048	25,000
Private placement ⁽ⁱⁱ⁾	15,756,722	1,899,907
Warrant valuation	-	(277,000)
Share issue costs	-	(110,678)
Flow-through share premium (Note 11)	-	(166,668)
Private placement ⁽ⁱⁱⁱ⁾	2,857,142	200,000
Share issue costs	-	(33,216)
Flow-through share premium (Note 11)	-	(43,000)
Balance at September 30, 2013	191,989,892	51,606,188
Private placement ^(iv)	7,142,856	500,000
Share issue costs	-	(60,918)
Flow-through share premium (Note 11)	-	(178,500)
Private placement ^(v)	2,000,000	140,000
Share issue costs	-	(16,797)
Flow-through share premium (Note 11)	-	(60,000)
Balance at December 31, 2013	<u>201,132,748</u>	<u>51,919,973</u>

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12. CAPITAL STOCK (continued)

(i) On October 2, 2012, the Company raised proceeds of \$5,479,670 by way of a brokered private placement of 19,802,079 common shares at a price of \$0.19 and 8,177,500 flow-through common shares at a price of \$0.21.

The agents received a cash commission of 5% of the gross proceeds raised through the Agents under the Offering, and 1,398,979 compensation options (each a "Compensation Option") entitling them to acquire up to 1,398,979 Shares at a price of \$0.19 per Compensation Option expiring on October 2, 2014. The Company paid a total amount of \$332,461 for commission, legal and filing fees and other cash-related share issue costs.

(ii) On March 15, 2013, the Company raised proceeds of \$1,899,907 by way of a non-brokered private placement of 9,090,000 hard dollar units ("HD Unit") at a price of \$0.11 and 6,666,722 flow-through units ("FT Unit") at a price of \$0.135. Each HD Unit comprised of one common share and one half of one common share purchase warrants. Each HD warrant is exercisable at a price of \$0.15 expiring on September 15, 2014. Each FT Unit comprised of one common share and one half of one common share purchase warrants. Each FT warrant is exercisable at a price of \$0.17 expiring on September 15, 2014. Both HD and FT warrants are subject to certain acceleration provisions.

The agents received cash commission of 6% of the gross proceeds raised through the Agents and 615,403 compensation options. The Company paid a total amount of \$141,419 for commission, legal and filing fees and other cash-related share issue costs.

(iii) On June 27, 2013, the Company raised proceeds of \$200,000 by way of a non-brokered private placement of 2,857,142 flow-through shares (FT Shares) at a price of \$0.07. The Company paid a total amount of \$33,216 for commission, legal and filing fees and other cash-related share issue costs.

(iv) On December 9, 2013, the Company raised proceeds of \$500,000 by way of a non-brokered private placement of 7,142,856 flow-through shares (FT Shares) at a price of \$0.07. The Company paid a total amount of \$60,918 for commission, legal and filing fees and other cash-related share issue costs.

(v) On December 20, 2013, the Company raised proceeds of \$140,000 by way of a non-brokered private placement of 2,000,000 flow-through shares (FT Shares) at a price of \$0.07. The Company paid a total amount of \$16,797 for commission, legal and filing fees and other cash-related share issue costs.

13. WARRANTS RESERVE

	Number #	Amount \$
Balance at October 1, 2012	23,769,143	3,183,678
Broker warrants issued ⁽ⁱ⁾	1,398,979	125,900
Warrants expired	(17,579,125)	(2,179,478)
Broker warrants expired	(1,180,500)	(534,500)
Private placement ⁽ⁱⁱ⁾	7,878,361	277,000
Broker warrants	615,403	24,600
Warrant issue costs	-	(55,338)
Balance at September 30, 2013 and December 31, 2013	<u>14,902,261</u>	<u>841,862</u>

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13. WARRANTS RESERVE (continued)

(i) In connection with the October 2, 2012 private placement (Note 12 (i)), the agent received 1,398,979 finder's warrants which entitle the holder to purchase one common share of the Company at a price of \$0.19 expiring on October 2, 2014. The estimated fair value of the finder's warrants of \$125,900 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 89%, a risk-free interest rate of 1.06% and an expected life of 2 years.

(ii) In connection with the March 15, 2013 private placement (Note 12 (ii)), the Company issued 4,545,000 HD warrants and 3,333,361 FT warrants. The estimated fair value of the HD warrants of \$167,000 and FT warrants of \$110,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 89%, a risk-free interest rate of 0.99% and an expected life of 18 months.

The agent received 615,403 finder's warrants which entitle the holder to purchase one common share of the Company at a price of \$0.135 expiring on September 15, 2014. The estimated fair value of the finder's warrants of \$24,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 89%, a risk-free interest rate of 0.99% and an expected life of 18 months.

As of December 31, 2013, the following warrants were outstanding:

Value \$	Outstanding Warrants #	Warrants Exercisable #	Exercise Price \$	Expiry Date
253,700	1,409,518	1,409,518	0.40	March 29, 2014
135,075	4,545,000	4,545,000	0.15	September 15, 2014
86,587	3,333,361	3,333,361	0.17	September 15, 2014
24,600	615,403 ⁽ⁱⁱ⁾	615,403	0.135	September 15, 2014
125,900	1,398,979 ⁽ⁱ⁾	1,398,979	0.19	October 2, 2014
216,000	3,600,000 ⁽ⁱⁱⁱ⁾	3,600,000	0.25	July 14, 2015
841,862	14,902,261	14,902,261		

(i) These are brokers' warrants issued in connection with the October 2, 2012 private placement.

(ii) These are brokers' warrants issued in connection with the March 15, 2013 private placement.

(iii) These are drawdown warrants issued in connection with the debt facility (Note 10).

14. SHARE-BASED PAYMENTS

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding capital stock increases. Options granted under the Plan vest immediately pending any regulatory hold period.

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14. SHARE-BASED PAYMENTS (continued)

The Plan provides that it is solely within the discretion of the Board to determine who receives stock options and in what amounts. In no case (calculated at the time of grant) shall the Plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- The number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- The aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

On January 15, 2013, the Company was obligated to grant an aggregate of 300,000 stock options to a consultant exercisable at \$0.195 per share exercisable up to January 15, 2018. All options vested immediately on grant date. The estimated fair value of the options granted of \$51,721 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 139%, a risk-free interest rate of 1.40% and an expected life of 5 years. These stock options have not been granted to date.

On April 23, 2013, the Company granted of an aggregate of 7,542,000 incentive stock options to certain employees of the Company. All options vested immediately on grant date. The options are exercisable on or before April 23, 2018 at an exercise price of \$0.11 per share. The estimated fair value of the options granted of \$459,924 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 144%, a risk-free interest rate of 1.11% and an expected life of 5 years.

During the 2013 fiscal year, the Company capitalized \$60,372 of share-based payments in exploration and evaluation assets as these related directly to individuals exclusively involved with working on the Granduc property (2012 - \$Nil).

In September 2013, the Company granted an aggregate of \$200,000 stock options to a new member of the Board. All options vested immediately on grant date. The options are exercisable on or before September 10, 2018 at an exercise price of \$0.09 per share. The estimated fair value of the options granted of \$10,663 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 149%, a risk-free interest rate of 2.16% and an expected life of 5 years.

The following table reflects the continuity of stock options at December 31, 2013 and September 30, 2013:

	2014		2013	
	Number of stock options #	Weighted average exercise price \$	Number of stock options #	Weighted average exercise price \$
Balance, beginning of period	16,945,500	0.29	9,260,000	0.44
Granted	200,000	0.09	7,542,000	0.11
Options to be granted	-	-	300,000	0.20
Expired/Forfeited	-	-	(156,500)	0.74
Balance, end of period	<u>17,145,500</u>	<u>0.28</u>	<u>16,945,500</u>	<u>0.29</u>

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14. SHARE-BASED PAYMENTS (continued)

As of December 31, 2013, the following stock options were outstanding:

<u>Value \$</u>	<u>Outstanding Options #</u>	<u>Options Exercisable #</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
57,000	1,425,000	1,425,000	0.10	June 1, 2014
256,300	1,165,000	1,165,000	0.25	April 23, 2015
95,000	500,000	500,000	0.20	July 1, 2015
78,000	300,000	300,000	0.23	September 9, 2015
1,494,600	3,180,000	3,180,000	0.50	October 18, 2015
490,200	860,000	860,000	0.60	January 21, 2016
1,207,531	1,700,000	1,700,000	0.75	March 2, 2016
29,353	50,000	50,000	0.88	August 2, 2016
455,260	7,465,500	7,465,500	0.11	April 23, 2018
10,663	200,000	200,000	0.09	September 10, 2018
<u>4,173,907</u>	<u>16,845,500</u>	<u>16,845,500</u>		

15. RELATED PARTY TRANSACTIONS

These condensed interim consolidated financial statements include balances and transactions with directors and officers of the Company and corporations related to them. The Company paid fees for services to certain officers and directors or companies controlled by certain officers and directors during the period that were recorded in the accounts shown below:

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company:

Key Management Compensation

	<u>December 31, 2013</u>	<u>September 30, 2013</u>
Exploration and evaluation assets	\$ 27,000	\$ 126,000
Consulting and management fees – Consulting fees	179,798	1,215,672
Consulting and management fees – Directors’ fees	10,000	32,500
	<u>\$ 216,798</u>	<u>\$ 1,374,172</u>

Included in amounts receivable as at December 31, 2013 is approximately \$93,120 (September 30, 2013 - \$57,598) in office and general expense reimbursements due from companies with common management. Of the \$93,120 amounts receivable, \$43,321 was received subsequent to December 31, 2013. During the three months period ended December 31, 2013, a total of approximately \$40,706 (December 31, 2013 - \$99,732) reimbursed by these companies was included in office and general.

These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

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16. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes shareholders' equity, comprised of issued capital stock, share based payments reserve, warrants reserve and deficit, in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest in are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during 2014 and 2013. The Company is not subject to any externally imposed requirements.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

17. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its risk management objectives. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below. There have been no significant changes in the risks, objectives, policies and procedures during 2014 and 2013.

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. In addition, most of the Company's investments are in the resource sector.

For the three months period ended December 31, 2013, a 10% decrease in the closing prices of its portfolio investments would result in an estimated increase in net loss of \$1,463 (September 30, 2013 - \$3,713). The Company also has investments in associates that could realize gains or losses on the disposition of shares.

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17. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

At December 31, 2013, the Company had cash balance of \$1,229,415 (September 30, 2013 - \$1,233,796) and current assets of \$1,727,619 (September 30, 2013 - \$1,717,737), to settle current liabilities of \$613,849 (September 30, 2013 - \$454,317). The Company has working capital of \$1,113,770 at December 31, 2013 (September 30, 2013 – working capital \$1,263,420).

Interest Rate Risk

The Company has cash balances and no interest-bearing debt other than the loan payable as describe in Note 10. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Credit Risk

The Company's credit risk is primarily attributable to guaranteed investment certificates and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable include harmonized sales tax due from the Federal Government of Canada and tax credits due from the Government of the Province of British Columbia, Canada. Management believes that the credit risk concentration with respect to these amounts included in the amounts receivable is remote, however such amounts are subject to government audit.

Sensitivity analysis

As at December 31, 2013, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

Fair Value

The Company's investments where the Company does not have significant influence over are classified as held-for-trading, measured at fair value. Cash and amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash, amounts receivable, accounts payable and accrued liabilities and loan payable approximate their fair value due to the relatively short periods to maturity of the financial instruments.

Fair Value hierarchy and liquidity risk disclosure

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As at December 31, 2013 and September 30, 2013, the Company's financial instruments that are carried at fair value, consisting of investments in WRW and CNRP, have been classified Level 1, within the fair value hierarchy.

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18. COMMITMENTS AND CONTINGENCIES

Management Contracts

The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to \$2,440,000 be made upon the occurrence of certain events such as a change of control. As the triggering events have not taken place, the contingent payments have not been reflected in these consolidated financial statements. Minimum management contract commitments remaining under these contracts are approximately \$1,251,533, due within one year.

Premise Lease

The Company is subject to a lease commitment and is committed to expenditures approximately of \$75,364 and \$16,748 in fiscal year 2014 and 2015 respectively.

Environmental

The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.