CASTLE RESOURCES INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2009

Unaudited

Responsibility for Financial Statements

The accompanying unaudited interim consolidated financial statements for Castle Resources Inc. have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles for interim financial statements consistently applied. The most significant of these accounting principles have been set out in the September 30, 2009 audited consolidated financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements; management is satisfied that these unaudited interim consolidated financial statements have been fairly presented.

Auditor Involvement

The independent auditors of Castle Resources Inc. have not performed a review of these unaudited interim consolidated financial statements.

CASTLE RESOURCES INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2009

Unaudited

INDEX	**PAGE**
Unaudited Interim Consolidated Balance Sheet	3
Unaudited Interim Consolidated Statements of Operations and Deficit	4
Unaudited Interim Consolidated Statements of Cash Flows	5
Notes to the Unaudited Interim Consolidated Financial Statements	6 - 21

CASTLE RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
As at

	December 31, 2009	September 30, 2009 Audited
ASSETS		
Current		
Cash and cash equivalents	$ 70,958	$ 125,202
Amounts receivable (Note 3)	111,709	127,121
Prepaid expenses	10,347	18,320
Future income taxes	-	-
	193,014	270,643
Long-term		
Equipment (Note 4)	5,854	6,304
Interest in mineral properties (Notes 5 and 10)	1,459,455	1,100,367
	$ 1,658,323	$ 1,377,314
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 109,648	$ 186,353
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	6,814,956	6,470,696
Contributed surplus (Note 9)	554,647	509,647
Warrants (Note 7)	680,344	591,353
Deficit	(6,501,272)	(6,380,735)
	1,548,675	1,190,961
	$ 1,658,323	$ 1,377,314

COMMITMENTS AND CONTINGENCIES (Notes 1, 5, 6 and 13)
SUBSEQUENT EVENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY" , Director

Signed "MARK BRENNAN" , Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

	Three months ended December 31 2009	2008
Expenses		
Consulting and management fees (Note 10)	$ 59,370	$ 67,000
Professional fees	8,625	57,740
Transfer agent and listing fee	8,587	2,899
Office and general (Note 10)	43,506	31,482
Amortization	449	624
	120,537	159,745
Loss before the undernoted	(120,537)	(159,745)
Interest income	-	10,360
Net loss and comprehensive loss before income taxes	(120,537)	(149,385)
Deficit, beginning of period	(6,380,735)	(1,743,457)
Deficit, end of period	$ (6,501,272)	$ (1,892,842)
Basic and diluted loss per share	(0.00)	(0.01)
Weighted average common shares outstanding - basic and diluted	30,318,854	26,684,521

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended December 31 2009	2008
CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the period	$ (120,537)	$ (149,385)
Add (deduct) items not affecting cash:		
Amortization	449	624
Net change in non-cash working capital	26,878	25,646
	(93,210)	(123,115)
INVESTING ACTIVITIES:		
Interest in mineral properties	(420,085)	(64,721)
Purchase of equipment	-	(216)
	(420,085)	(64,937)
FINANCING ACTIVITIES:		
Shares issued through private placement	480,440	-
Share issue costs	(21,389)	-
	459,051	-
Change in cash and cash equivalents	(54,244)	(188,052)
Cash and cash equivalents at beginning of period	125,202	1,402,460
Cash and cash equivalents at end of period	$ 70,958	$ 1,214,408

Cash and cash equivalents consist of:

	2009	2008
Cash	$ 70,958	$ 29,948
Cash equivalents	-	1,184,460
Cash and cash equivalents	$ 70,958	$ 1,214,408

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Castle Resources Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act *(Alberta)* on April 29, 2004. Following the acceptance by the shareholders on March 28, 2007 of its qualifying transaction, the Company became a development stage entity, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11, in the business of acquisition, exploration and development of mineral resource interests.

The Company has interests in mineral properties located in Mexico and Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves which are economically recoverable.

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 interest in mineral properties 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 raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-down of the carrying values. The Company's mining assets that are located outside of Canada are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations and restrictions.

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 has a need for equity capital and financing for working capital and 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. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 operations and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian generally accepted accounting principles for annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 2009 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2010.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

Recent accounting pronouncements not yet adopted

i) International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2012. The Company has hired external consultants to assist in analyzing and addressing the differences between IFRS and Canadian GAAP that are relevant to the Company. An initial analysis that identifies the high level differences between Canadian GAAP and IFRS that may impact the Company was completed during 2009. The full impact of the required changes to accounting systems, processes and training and development required for key personnel are being assessed. The Company will continue their analysis of accounting and disclosure differences continue to work with external consultants to assess the impact on our internal controls, and work on a changeover plan as necessary. There will be changes in accounting policies related to the adoption of IFRS and these may materially impact the Company's financial statements in the future.

ii) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Sections 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. AMOUNTS RECEIVABLE

Included in amounts receivable is $89,249 (September 30, 2009 - $89,249) of IVA recoverable (Mexican value added tax) and $22,460 (September 30, 2009 - $37,872) of GST recoverable. The GST refund was received subsequent to December 31, 2009.

4. EQUIPMENT

December 31, 2009

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 4,765	$ 2,168	$ 2,597
Computer equipment	7,447	4,382	3,065
Computer software	7,127	6,935	192
	$ 19,339	$ 13,485	$ 5,854

September 30, 2009

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 4,765	$ 2,031	$ 2,734
Computer equipment	7,447	4,134	3,313
Computer software	7,127	6,870	257
	$ 19,339	$ 13,035	$ 6,304

5. INTEREST IN MINERAL PROPERTIES

The San Ramon Claim Group, Silver Project, Mexico

Balance at September 30, 2007	$ 3,565,706
Capitalized costs	528,631
Balance at September 30, 2008	$ 4,094,337
Capitalized costs	126,454
Option payment received	(84,606)
Write-down	(3,688,185)
Balance at September 30, 2009	$ 448,000
Capitalized costs	-
Balance at December 31, 2009	$ 448,000

The Elmtree Gold Project, New Brunswick, Canada

Balance at September 30, 2008	$ -
Acquisition costs	115,945
Capitalized costs	519,122
Balance at September 30, 2009	$ 635,067
Capitalized costs	275,558
Balance at December 31, 2009	$ 910,625

The Murphy Claims, New Brunswick, Canada

Balance at September 30, 2008	$ -
Acquisition costs	16,250
Capitalized costs	1,050
Balance at September 30, 2009	$ 17,300
Capitalized costs	3,031
Balance at December 31, 2009	$ 20,331

The Horseshoe Claims, British Columbia, Canada

Balance at September 30, 2009	$ -
Acquisition costs	79,200
Capitalized costs	1,299
Balance at December 31, 2009	$ 80,499

Total Interest in mineral properties, December 31, 2009	**$ 1,459,455**

5. INTEREST IN MINERAL PROPERTIES (continued)

The San Ramon Claim Group, Silver Project, Mexico

On July 12, 2006, the Company entered into a letter of intent with Great Horn Inc. (“Great Horn”) to acquire certain mining claims held by Great Horn located in the State of Zacatecas in Mexico.

In consideration for the acquisition of Great Horn’s mining claims, the Company issued Great Horn 8,000,000 common shares, subject to an escrow agreement (Note 7), with an estimated value of $0.30 per common share based on the price of the concurrent private placement, for aggregate consideration of $2,400,000. The Company also paid US$200,000 (approximately CDN$217,000).

On July 15, 2009, the Company entered into an agreement with MAG Silver Corp. (“MAG”) whereby MAG may earn up to a 100% interest in the San Ramon Claim Group by making payments to the Company of US$75,000 (Cdn$83,955) upon signing (received) and US$750,000 (Cdn$804,150) after five years. MAG is also required to make exploration expenditures on the property totalling US$3,250,000, as follows: US$500,000 in the first year of the option, US$500,000 in the second year of the option, US$1,000,000 in the third year of the option and US$1,250,000 in the fourth year of the option. The Company would also retain a 1.5% net smelter royalty.

The Company completed an impairment assessment on the San Ramon Claim Group based on the agreement with MAG and wrote-down $3,688,185 relating to these claims at September 31, 2009.

The Elmtree Gold Property, New Brunswick, Canada

On June 1, 2009, the Company entered into an option agreement with Stratabound Mineral Corp. (“Stratabound”) to acquire up to a 70% interest in Stratabound’s 100% owned New Brunswick based Elmtree Gold Property.

The Company can earn a 60% interest upon completion of the following terms over a 3 year option period (“First Option”):

(a) Payment of $100,000 in cash (paid) and issuance of 200,000 common shares (issued with a value of $12,000, based on the quoted market value of the Company’s shares) upon execution of the option agreement.
(b) Complete the following exploration expenditure requirements, which include an administration and management fee of 10% of amounts actually spent:
   i. a minimum of $750,000 on or prior to June 1, 2010;
   ii. an additional of at least $750,000, on or prior to June 1, 2011; and
   iii. $2,500,000, less the amounts spent as part of the expenditure requirements described in (i) and (ii) above on or prior to June 1, 2012.
(c) Make the following cash payments:
   i. $50,000 on or prior to June 1, 2010; and
   ii. an additional $50,000 on or prior to June 1, 2011.

The Company can earn an additional 10% interest upon payment of $1,000,000 to Stratabound within 90 days from notice of its earn in on the First Option.

Certain claims included in the Elmtree Gold Property are subject to net smelter royalties of up to 2%.

5. INTEREST IN MINERAL PROPERTIES (continued)

The Murphy Claims, New Brunswick, Canada

On September 15, 2009, the Company entered into an option agreement to acquire up to a 100% interest in the Murphy Claims property, located in New Brunswick.

The Company can earn a 100% interest upon completion of the following terms over a 3 year option period:

(a) Payment of $10,000 in cash (paid) and issuance 50,000 common shares (issued with a value of $5,500, based on the quoted market value of the Company's shares) upon execution of the option agreement.
(b) Complete a minimum of $200,000 of exploration and drilling activities on or prior to September 15, 2012.
(c) Payment of $10,000 in cash and issuance 50,000 common shares on or prior to September 15, 2010.
(d) Payment of $10,000 in cash and issuance 100,000 common shares on or prior to September 15, 2011.

The Murphy Claims are subject to a 2.0% net smelter royalty on all production of minerals, metals and precious or semi precious stones, one half of which (i.e. 1% NSR) can be repurchased for $1,000,000.

The Horseshoe Property, British Columbia, Canada

On November 2, 2009, the Company entered into an agreement to acquire a 100% interest in the Horseshoe Property (the "Property") located in British Columbia, Canada.

The Company can earn a 100% interest upon completion of the following terms over a 3 year option period:

(a) Payment of $60,000 in cash (paid) and issuance 120,000 common shares (issued with a value of $19,200, based on the quoted market value of the Company's shares) upon execution of the option agreement.
(b) Complete a minimum of $1,500,000 of exploration and drilling activities on or prior to October 22, 2012.
(c) Payment of $80,000 in cash and issuance 120,000 common shares on or prior to October 22, 2010.
(d) Payment of $160,000 in cash and issuance 120,000 common shares on or prior to October 22, 2011.

The Horseshoe Claims are subject to a 2.0% net smelter royalty on all production of minerals, metals and precious or semi precious stones, one half of which (i.e. 1% NSR) can be repurchased for $1,000,000.

6. CAPITAL STOCK

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

Common shares

	Number #	Amount $
Balance at September 30, 2008	26,684,521	6,828,196
Flow-through share tax effect	-	(375,000)
Shares issue on property acquisitions (Note 5)	250,000	17,500
Balance at September 30, 2009	26,934,521	6,470,696
Private placement (i)	4,003,666	480,440
Private placement – warrant valuation	-	(139,340)
Shares issue costs	-	(16,040)
Shares issue on property acquisitions (Note 5)	120,000	19,200
Balance at December 31, 2009	31,058,187	6,814,956

(i) On October 16, 2009 the Company completed a brokered private placement of 4,003,666 units at $0.12 per unit for gross proceeds of $480,440. Each unit is comprised of one common share and one-half of one share purchase warrant. Each warrant is exercisable for one common share at a price of $0.20 at any time prior to April 15, 2011. The broker was paid a cash commission of 6% of the amount of funds raised and were granted compensation warrants equivalent to 10% of the number of units sold. The Company paid $16,766 in cash fees to the finders and issued 232,866 compensation warrants to the finders. The Company incurred $2,100 in legal fees.

6. CAPITAL STOCK (Continued)

Escrow Shares
Pursuant to an escrow agreement dated as of June 30, 2004 among the Company, CIBC Mellon Trust Company ("CIBC Mellon") and certain shareholders of the Company, 2,000,000 common shares were deposited in escrow. Pursuant to that same escrow agreement, upon the initial public offering date, escrowed shares shall be released as to 10% immediately (the "Initial Release") and an additional 15% on the dates that are six months, twelve months, eighteen months, twenty-four months, thirty months and thirty-six months following the Initial Release.

Pursuant to an escrow agreement dated as of March 28, 2007 between the Company and Great Horn, 8,000,000 common shares issued to Great Horn in connection with the acquisition of an interest in mineral properties (Note 6) were deposited into escrow. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be released. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

As of December 31, 2009, 1,510,425 common shares are held in escrow.

7. WARRANTS

	Number	Amount
	#	$
Balance at September 30, 2008	4,715,527	361,353
Expiry of broker warrants (i)	(234,999)	(42,000)
Revaluation of warrants – extended term (ii)	-	272,000
Balance at September 30, 2009	4,480,528	591,353
Private placement (iii)	2,001,833	113,740
Brokers' warrants (iv)	232,866	25,600
Warrant issue costs	-	(5,349)
Expiry of broker warrants (v)	(344,100)	(45,000)
Balance at December 31, 2009	6,371,127	680,344

(i) In connection with the March 18, 2008 private placement, the agent received 234,999 brokers' warrants which entitle the holder to purchase one unit of the Company at a price of $0.35. The warrants are exercisable for 18 months. The estimated fair value of the brokers' warrants of $42,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 93%, a risk-free interest rate of 4% and an expected life of 18 months. Each unit is exercisable into one common share of the Company and one common share purchase warrant exercisable at a price of $0.60 for a period of two years. These broker warrants expired on September 18, 2009.

(ii) During 2009, the Company extended the expiry date of common share purchase warrants issued by the Company as part of a flow-through unit financing that closed in two tranches with 1,678,570 warrants issued on March 18, 2008 and 142,857 warrants issued on April 2, 2008, and a non-flow-through unit financing closed on April 2, 2008 with a further 2,340,000 warrants issued. The new expiry date for all these warrants has now been extended until September 18, 2010. The weighted average modification date estimated fair value of the extension of the warrants was $0.07, valued at $272,000 in shareholder relations, with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 244%; (iii) risk free interest rate of 1.3%; (v) expected life of 1.03 years.

(iii) In connection with the October 16, 2009 private placement (Note 6(i)), 2,001,833 warrants were issued at an exercise price of $0.20 until April 15, 2011. The estimated fair value of these warrants of $113,740 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 164%, a risk-free interest rate of 1.6% and an expected life of 18 months.

7. WARRANTS (Continued)

(iv) In connection with the October 16, 2009 private placement, the agent received 232,866 brokers' warrants which entitle the holder to purchase one unit of the Company at a price of $0.12. The warrants are exercisable for 18 months. The estimated fair value of the brokers' warrants of $25,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 164%, a risk-free interest rate of 1.6% and an expected life of 18 months. Each unit is exercisable into one unit at a price of $0.12 for a period of 18 months.

(v) In connection with the April 2, 2008 private placement, the agent received 344,100 brokers' warrants which entitle the holder to purchase one unit of the Company at a price of $0.30. The warrants are exercisable for 18 months. The estimated fair value of the brokers' warrants of $45,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 93%, a risk-free interest rate of 4% and an expected life of 18 months. Each unit is exercisable into one common share and one-half of one common share purchase warrant exercisable at a price of $0.45 for a period of 18 months. These broker warrants expired on October 2, 2009.

As of December 31, 2009, the following warrants were outstanding:

Value $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
224,706	1,678,570	1,678,570	0.60	September 18, 2010
321,647	2,457,858	2,457,858	0.45	September 18, 2010
113,740	2,001,833	2,001,833	0.20	April 15, 2011
660,093	6,138,261	6,138,261	0.41	

8. STOCK-BASED COMPENSATION

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 share capital increases. Options granted under the Plan vest immediately pending any regulatory hold period.

The Plan provides that it is solely within the discretion of the Board to determine who would receive 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.

8. STOCK-BASED COMPENSATION (Continued)

The following table reflects the continuity of stock options during the period:

	December 31, 2009		September 30, 2009	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of period	2,350,000	0.17	1,205,000	0.28
Granted	-	-	1,500,000	0.10
Expired	-	-	(355,000)	0.28
Balance, end of period	2,350,000	0.17	2,350,000	0.17

On June 1, 2009, the Company granted a total of 1,500,000 stock options. The options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.10 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.04 each using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 100%; (iii) risk free interest rate of 2.09% and; (iv) expected life of five years.

As of December 31, 2009, the following stock options were outstanding:

Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
189,750	750,000	750,000	0.30	March 28, 2012
27,000	100,000	100,000	0.35	June 4, 2012
60,000	1,500,000	1,500,000	0.10	June 1, 2014
276,750	2,350,000	2,350,000		

9. CONTRIBUTED SURPLUS

	2009	2009
Balance at beginning of period	$ 509,647	$ 393,647
Expiry of broker warrants	45,000	42,000
Stock options granted (i)	-	74,000
Balance at end of period	$ 554,647	$ 509,647

(i) $14,000 of the stock based compensations expense has been recorded to interest in mineral properties and $60,000 to the statement of operations. $71,000 was granted to employees and $3,000 was granted to non-employees.

Continued...

10. RELATED PARTY TRANSACTIONS

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company rents office space from a corporation controlled by a director of the Company. During the period, rent of approximately $7,900 (December 31, 2008 - $10,131) charged by this corporation was included in office and general expenses.

During the quarter ended December 31, 2009, the Company incurred consulting fees and management fees of approximately $62,250 (December 31, 2008 - $67,000) paid to certain directors and officers of the Company.

11. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are 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.

(a) Capital Risk

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its mineral properties. The capital structure of the Company consists primarily of capital stock, warrants and contributed surplus.

(b) Credit Risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to money market funds held in Canadian banks and Goods and Services Tax due from the Federal Government of Canada and IVA recoverable due from the Mexican government which are included in amounts receivable. Management expects that the IVA recoverable from the Mexican government is fully recoverable; however, the timing of recovery has been longer than initially anticipated.

(c) Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company intends on fulfilling its obligations.

Continued...

11. FINANCIAL INSTRUMENTS (Continued)

(d) Market Risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

(i) Interest rate risk
The Company has cash balances and no interest-bearing debt. 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.

(ii) Foreign currency risk
The Company is primarily exposed to currency fluctuations related to the Canadian dollar on expenditures that are denominated in United States (US) dollars and Mexican Pesos. The Company does not actively manage this risk.

(iii) Price risk
The Company is exposed to price risk with respect to commodity pricing.

(e) Sensitivity analysis

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.

- The Company does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk.

- Price risk is remote since the Company is not a producing entity.

- A change in interest rates of 1% would have a corresponding change in net loss for the year of approximately $1,000 based on the cash and cash equivalents balance at December 31, 2009.

(f) Fair values

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term nature of the instruments.

Continued...

12. CAPITAL MANAGEMENT

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 Company's capital consists of capital stock, warrants and contributed surplus. 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 are in the exploration 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 and if available.

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.

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 the period.

13. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $546,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $49,250 all of which are due within one year.