CASTLE RESOURCES INC.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

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, 2010 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.

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CASTLE RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
As at

	December 31, 2010	September 30, 2010 Audited
ASSETS		
Current		
Cash and cash equivalents	$ 3,982,840	$ 101,483
Amounts receivable (Note 3)	899,057	766,055
Prepaid expenses	59,065	15,904
Future income taxes	194,000	85,000
	5,134,962	968,442
Long-term		
Prepaid expenses	98,475	98,475
Deferred transaction costs	-	37,619
Long-term receivables (Note 3)	92,205	92,205
Equipment (Note 4)	7,073	7,538
Interest in mineral properties (Note 5)	11,307,531	6,436,981
	$ 16,640,246	$ 7,641,260
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 527,439	$ 2,385,851
Due to shareholder	-	100,000
	527,439	2,485,851
Long-term		
Loan payable (Note 6)	1,866,801	1,783,590
	2,394,240	4,269,441
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	16,884,996	8,493,576
Contributed surplus (Note 10)	3,021,100	1,503,000
Warrants (Note 8)	3,426,718	839,322
Deficit	(9,086,808)	(7,464,079)
	14,246,006	3,371,619
	$ 16,640,246	$ 7,641,060

COMMITMENTS AND CONTINGENCIES (Notes 1, 5, 6 and 14)

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 2010	2009
Expenses		
Stock-based compensation (Notes 9 and 10))	$ 1,518,100	$ -
Professional fees	14,466	8,625
Management and consulting fees (Note 12)	81,015	59,370
Transfer agent and listing fee	10,047	8,587
Office and general (Note 12)	28,014	43,506
Interest and financing fees (Note 6)	83,220	-
Amortization	465	449
	1,735,327	120,537
Loss before the undernoted	(1,735,327)	(120,537)
Interest income	12,598	-
Net loss and comprehensive loss before income taxes	(1,722,729)	(120,537)
Future income taxes	100,000	-
Net loss and comprehensive loss for the period	(1,622,729)	(120,537)
Deficit, beginning of the period	(7,464,079)	(6,380,735)
Deficit, end of the period	$ (9,086,808)	$ (6,501,272)
Basic and diluted loss per share	(0.02)	(0.00)
Weighted average common shares outstanding - basic and diluted	75,899,331	30,318,854

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended December 31 2010	 2009
CASH AND CASH EQUIVALENT USED IN:		
OPERATING ACTIVITIES:		
Net loss for the period	$ (1,622,729)	$ (120,537)
Charges not affecting cash:		
Stock-based compensation	1,518,100	-
Amortization	465	449
Future income taxes	(100,000)	-
Debt facility costs	83,211	-
Net change in non-cash working capital	(194,405)	26,878
	(315,358)	(93,210)
INVESTING ACTIVITIES:		
Interest in mineral properties	(5,221,602)	(420,085)
FINANCING ACTIVITIES:		
Repayment of shareholder loan	(100,000)	-
Broker warrants exercised	1,110	-
Warrants exercised	83,666	-
Private placements	10,320,000	480,440
Share issue costs	(886,459)	(21,389)
	9,418,317	459,051
Change in cash and cash equivalents:	3,881,357	(54,244)
Cash and cash equivalents at beginning of period	101,483	125,202
Cash and cash equivalents at end of period	$ 3,982,840	$ 70,958
Cash and cash equivalents consist of:		
Cash	781,230	70,958
Cash equivalents	3,201,610	-
Cash and cash equivalents	$ 3,982,840	$ 70,958

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. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11, and is 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 exploration 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 downs of the carrying values. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and political uncertainty.

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 business 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, 2010 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2011.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")
In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of calendar 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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. Section 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. The Company is in the process of evaluating the requirements of the new standards and expects to adopt the standards effective October 1, 2010.

3. AMOUNTS RECEIVABLE

Included in amounts receivable is $518,958 (September 30, 2010 - $332,205) of GST recoverable, $380,100 (September 30, 2010 - $380,100) of refundable exploration tax credits, and $ Nil (September 30, 2010 - $53,750) related to stock options exercised. IVA recoverable (Mexican value added tax) of $92,205 (2009 - $89,249) has been reclassified as a long-term receivable.

4. EQUIPMENT

December 31, 2010

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 6,765	$ 2,977	$ 3,788
Computer equipment	8,897	5,612	3,285
	$ 15,662	$ 8,589	$ 7,073

September 30, 2010

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 6,765	$ 2,778	$ 3,987
Computer equipment	8,897	5,346	3,551
	$ 15,662	$ 8,124	$ 7,538

5. INTEREST IN MINERAL PROPERTIES

Granduc Claims, British Columbia, Canada

Balance at September 30, 2009	$	-
Acquisition costs		2,598,000
Capitalized costs		1,916,929
Less: refundable exploration tax credit (Note 3)		(380,100)
Balance at September 30, 2010	$	4,134,829
Acquisition costs		3,422,500
Capitalized costs		1,046,524
Balance at December 31, 2010	$	8,603,853

The Elmtree Gold Project, New Brunswick, Canada

Balance at September 30, 2009	$	635,067
Acquisition costs		50,000
Capitalized costs		1,063,151
Balance at September 30, 2010	$	1,748,218
Acquisition costs		-
Capitalized costs		267,526
Balance at December 31, 2010	$	2,015,744

The Horseshoe Claims, British Columbia, Canada

Balance at September 30, 2009	$	-
Acquisition costs		82,674
Capitalized costs		23,260
Balance at September 30, 2010	$	105,934
Acquisition costs		134,000
Capitalized costs		-
Balance at December 31, 2010	$	239,934

The San Ramon Claim Group, Silver Project, Mexico

Balance at September 30, 2009	$	448,000
Capitalized costs		-
Balance at September 30, 2010 and December 31, 2010	$	448,000

Total interest in mineral properties, December 31, 2010	**$**	**11,307,531**

5. INTEREST IN MINERAL PROPERTIES (continued)

Granduc Claims ("Granduc Project")

On April 6, 2010, the Company signed a binding letter of intent ("LOI") with Bell Copper Corporation ("Bell Copper") to acquire up to a 90% interest in the Granduc Mine and surrounding areas. On July 16, 2010, the Company and Bell Copper entered into an option agreement.

Pursuant to the option agreement, in order to earn a 51% interest, the Company must meet the following:

i) Pay a $20,000 non-refundable deposit to Bell Cooper prior to the signing of the agreement (paid);

ii) Pay $2.5 million to Bell Copper (of which $500,000 will be reimbursed to the Company for exploration expenditures on the Granduc Mine, pursuant to the expenditure commitment in the first year) on or before the first anniversary date (paid);

iii) To incur a minimum of $3 million of expenditures in the first year (of which $500,000 is paid from Bell Cooper from the Company's option payment) (incurred) and a minimum of $2 million by the end of the second and third anniversaries of the agreement. A one-time catch up payment may be made if the Company does not spend the $2 million minimum in the previous year;

iv) Issue 250,000 shares to Bell Cooper on the signing of the agreement (issued in 2010 with a value of $50,000) and an additional 250,000 shares on the first, second and third anniversary date of the agreement.

Pursuant to the option agreement, in order to earn an 80% interest, the Company must meet the following:

i) all of the above obligations to earn a 51% interest have been made;

ii) at any time within 15 days after earning the 51% interest, the Company must notify Bell Cooper that it wishes to earn into the 80% interest;

iii) incur expenditures of not less than $18,000,000 on or before the sixth anniversary date of the agreement;

iv) issue 250,000 common shares on or before the fourth anniversary of the date of the agreement;

v) issue 250,000 common shares on or before the fifth anniversary of the date of the agreement.

Pursuant to the option agreement, in order to earn a 90% interest, the Company must meet the following:

i) the above obligations to earn the 80% interest have been met;

ii) at any time within 15 days after earning the 80% interest, the Company must notify Bell Cooper that it wishes to earn into the 90% interest;

iii) provide within one year of completion of a feasibility study, the financing required to bring the property into commercial production.

The Granduc property is subject to a 2% Net Smelter Royalty ("NSR") in respect to the Keystone mineral claims, payable to Keystone Gold Inc. The NSR can be purchased by the Company and Bell Cooper for $500,000 for the first one percent (1%) and $1 million for the remaining one percent (1%), based on their ownership percentages.

The Granduc property is also subject to a 1.5% NSR in respect to the Teuton mineral claims and the Bell Mineral claims, payable to Teuton Resources Corporation ("Teuton"). 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) to Bell Cooper, with respect to the amounts owed to Teuton, until the Teuton mineral claims cease or are put into commercial production. During the period, the Company paid $25,000 cash and 50,000 common shares (value at $22,500).

On October 15, 2010, the Company acquired a 100% interest in the Granduc Project. The acquisition supersedes the option agreement dated July 16, 2010 (See Note 5). Pursuant to the agreement, the Company paid Bell Copper an additional $2,000,000 and issued an additional 2,750,000 common shares (issued in October 2010 with a value of $1,375,000) of the Company for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

5. INTEREST IN MINERAL PROPERTIES (continued)

The Elmtree Gold Project, 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 Elmtree Gold Property, located in New Brunswick.

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 in 2009 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 (completed);
   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 (paid); 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%.

The Horseshoe Claims, 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 in 2010 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 ($23,260 spent as at December 31, 2010).

(c) Payment of $80,000 in cash (paid) and issuance 120,000 common shares (issued in October 2010 with a value of $54,000, based on the quoted market value of the Company's shares).

(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% 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.

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, 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 $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 ($84,606) upon signing (received) and US$750,000 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 30, 2009.

6. 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 such that it amounted 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 is exercisable into one common share at a price of $0.20 for a period of 2 years.

The value of the warrants and the discount was recorded against the debenture to be accreted over the term of the debenture. At December 31, 2010, the Company recorded $83,211 interest, accretion expense and finance fees in the consolidated statements of operations and deficit.

7. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	Number #	Amount $
Balance at September 30, 2009	26,934,521	6,470,696
Private placement (i)	4,003,666	480,440
Private placement – warrant valuation (i)	-	(105,193)
Share issue costs (i)	-	(17,291)
Private placement – broker warrant valuation (i)	-	(14,528)
Private placement (ii)	7,762,500	621,000
Share issuance as share issue costs (ii)	292,500	55,575
Private placement – finder's shares valuation (ii)	-	(55,575)
Share issue costs (ii)	-	(49,263)
Shares issued on property acquisitions (Note 5)	370,000	69,200
Broker warrants exercise	104,500	17,131
Private placement (iii)	7,400,000	1,520,500
Private placement – warrant valuation (iii)	-	(520,989)
Share issue costs (iii)	-	(89,263)
Warrants exercised	52,250	10,450
Warrants exercised – value reallocation	-	1,828
Stock options exercised	225,000	53,750
Stock options exercised – value reallocation	-	43,800
Balance at September 30, 2010	47,144,937	8,492,268
Private placement (v)	32,112,500	10,320,000
Private placement – warrant valuation (v)	-	(2,520,239)
Share issue costs (v)	-	(966,176)
Shares issued on property acquisitions (Note 5)	2,870,000	1,429,000
Shares issued as advance royalty	50,000	22,500
Warrants exercised	418,333	83,666
Warrants exercised – value reallocation	-	21,983
Broker warrants exercised	5,550	1,110
Broker warrants – value reallocation	-	884
Balance at December 31, 2010	82,601,320	16,884,996

(i) On October 16, 2009, the Company closed a brokered private placement offering for aggregated gross proceeds of $480,440. The Company issued 4,003,666 units at a price of $0.12 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable for one common share of the Company at a price of $0.20 at any time prior to April 15, 2011.

In connection with the offering, the Company paid a cash commission of 6% of the gross proceeds raised and issued finder's warrants equal to 10% of the units issued. Each finder's warrant entitles the holder to acquire one unit of the Company at a price of $0.12 per Unit until April 15, 2011. On closing, the Company paid $16,766 in cash commissions and issued an aggregate 232,866 finder's warrants. The Company incurred $2,100 in legal fees.

Refer to Note 8(i) for additional details.

7. CAPITAL STOCK (continued)

(ii) On March 29, 2010, the Company closed a non-brokered private placement offering for aggregated gross proceeds of $621,000. The Company issued 7,762,500 common shares at a price of $0.08 per share. In connection with the offering, the Company paid cash commissions of 6% of the gross proceeds raised and issued finder's shares equal to 10% of the shares issued. On closing, the Company paid $23,400 in cash commissions and issued an aggregate 292,500 finder's shares valued at $0.19 per share. The Company incurred $16,928 in legal fees.

(iii) On July 19, 2010, the Company closed a brokered private placement offering for aggregated gross proceeds of $1,520,500. The Company issued 6,050,000 units at a price of $0.20 each for gross proceeds of $1,210,000, with each unit consisting of one common share and one common share purchase warrant. The Company also issued 1,350,000 flow-through units at a purchase price of $0.23 per flow-through unit for gross proceeds of $310,500, with each flow-through unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable for one common share of the Company at $0.30 until January 31, 2012, and each whole warrant from the flow-through units is exercisable for one common share of the Company at $0.33 until January 31, 2012.

In connection with the private placement, the Company paid cash commissions of 6% of the gross proceeds raised and also issued compensation warrants equal to 6% of the total number of units or flow-through units issued. Each compensation warrant entitles the holder upon exercise at $0.30 to one common share and one warrant of the Company, until January 31, 2012. On closing, the Company paid an aggregate amount of $80,250 in cash commissions and issued an aggregate of 389,100 compensation warrants.

Refer to Note 8(iii) for additional details.

(iv) In connection with the private placement described in Note 7(iii) and 7(v), the Company raised a total of $706,500 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2011. The Company indemnified the subscribers of the flow-through shares for any tax related amounts that become payable by such subscribers if the Company does not meet its expenditure requirements. As at December 31, 2010, the Company has met this expenditure requirement.

(v) On October 7, 2010, the Company closed a brokered private placement comprised of 31,012,500 units at a price of $0.32 per unit for gross proceeds of $9,924,000 (each unit consists of one common share and one common share purchase warrant), and 1,100,000 flow-through shares at a purchase price of $0.36 per flow-through unit share for gross proceeds of $396,000. Each warrant is exercisable for one common share of the Company at $0.50 until October 7, 2012.

In connection with the private placement, the Company paid cash commissions of 7% of the gross proceeds raised and also issued finder's fees equal to 7% of the total number of units or flow-through shares issued. Each compensation warrant entitles the holder to exercise each unit at a price of $0.32 for one common share and one warrant of the Company until October 7, 2012. On closing, the Company paid an aggregate amount of $722,400 in cash commissions and issued an aggregate of 2,247,875 compensation warrants. The Company incurred $29,870 in legal fees.

Refer to Note 8(iv) for additional details.

8. WARRANTS

	Number \#	Amount $
Balance at September 30, 2009	4,480,528	591,353
Private placement (i)	2,001,833	105,193
Warrant exercise (i)	(52,250)	(1,828)
Warrant issue costs (i)	-	(4,847)
Brokers' warrants (i)	232,866	18,600
Share issue costs – Brokers' warrants (i)	-	(4,072)
Brokers' warrants exercised (i)	(104,500)	(8,360)
Warrants issued from broker warrant exercise (i)	52,250	3,769
Expiry of broker warrants (ii)	(344,100)	(45,000)
Debt facility (Note 6)	3,900,000	231,000
Private placement (iii)	6,725,000	520,989
Warrant issue costs (iii)	-	(50,815)
Brokers' warrants (iii)	389,100	31,000
Expiry of warrants	(4,136,428)	(546,353)
Balance at September 30, 2010	13,144,299	840,629
Private placement (iv)	15,506,250	2,520,239
Warrant issue costs (iv)	-	(315,883)
Brokers' warrants (iv)	2,247,875	404,600
Warrant exercise	(418,333)	(21,983)
Brokers' warrants exercised	(5,550)	(884)
Balance at December 31, 2010	30,474,541	3,426,718

(i) In connection with the October 16, 2009 private placement (Note 7(i)), 2,001,833 warrants were issued at an exercise price of $0.20 until April 15, 2011. The fair value of these warrants of $105,193 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. During the year ended September 30, 2010, 52,250 of these warrants were exercised.

The agent received 232,866 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.12. The finder's warrants are exercisable for 18 months. The estimated fair value of the finder's warrants of $18,600 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 finder's warrant is exercisable into one unit at a price of $0.12 for a period of 18 months. On June 29, 2010, 104,500 finder's warrants were exercised.

(ii) 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.

(iii) In connection with the July 19, 2010 private placement (Note 7(iii)), 6,050,000 warrants were issued with an exercise price of $0.30 until January 31, 2012. The fair value of these warrants of $447,120 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 172%, a risk-free interest rate of 1.55% and an expected life of 18 months.

8. WARRANTS (continued)

In addition to this, an additional 675,000 warrants were issued pursuant to the issuance of the 1,350,000 flow-through units. The fair value of these warrants of $73,869 was estimated using the Black-Scholes option pricing model with the following assumptions: exercise price of $0.33, an expected dividend yield of 0%, expected volatility of 172%, a risk-free interest rate of 1.55% and an expected life of 18 months.

The agent received 389,100 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.20. The finder's warrants are exercisable for 18 months. The estimated fair value of the finder's warrants of $31,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 172%, a risk-free interest rate of 1.56% 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 $0.20 for a period of 18 months.

(vi) In connection with the October 7 2010 private placement (Note 7(iii)), 15,506,250 warrants were issued with an exercise price of $0.50 until October 7 2012. The fair value of these warrants of $2,520,239 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 170%, a risk-free interest rate of 1.33% and an expected life of 2 years.

The agent received 2,247,875 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.32. The finder's warrants are exercisable for 2 years. The estimated fair value of the finder's warrants of $404,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 170%, a risk-free interest rate of 1.33% and an expected life of 2 years. Each unit is exercisable into one common share of the Company and one half a common share purchase warrant exercisable at a price of $0.50 for a two year period.

As of December 31, 2010, the following warrants were outstanding:

Value	Outstanding Warrants	Warrants Exercisable	Exercise Price	Expiry Date
$	#	#	$	
83,210	1,583,500	1,583,500	0.20	April 15, 2011
6,181	128,366[(i)]	128,366	0.12	April 15, 2011
400,922	6,050,000	6,050,000	0.30	January 31, 2012
65,886	675,000	675,000	0.33	January 31, 2012
30,558	383,550[(ii)]	383,550	0.20	January 31, 2012
15,000	300,000[(iii)]	300,000	0.20	July 14, 2012
2,520,239	15,506,250	15,506,250	0.50	October 7, 2012
404,600	2,247,875	2,247,875	0.32	October 7, 2012
216,000	3,600,000[(iv)]	3,600,000	0.25	July 14, 2015
3,742,596	30,474,541	30,474,541		

(i) These are finder's warrants issued in connection with October 16, 2009 private placement exercisable into units. Refer to Note 8(i) for additional details.
(ii) These are finder's warrants issued in connection with July 19, 2010 private placement exercisable into units. Refer to Note 8(iii) for additional details.
(iii) These are standby warrants issued in connection with debt facility (Note 6).
(iv) These are drawdown warrants issued in connection with debt facility (Note 6).
(v) These are warrants that were issued upon the exercise of 104,500 finder's warrants

9. 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 capital stock 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.

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

	December 31, 2010		September 30, 2010	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of period	4,165,000	0.20	2,350,000	0.17
Granted	3,230,000	0.50	2,040,000	0.23
Exercised	-	-	(225,000)	0.24
Expired	-	-	-	-
Balance, end of period	7,395,000	0.33	4,165,000	0.20

On April 23, 2010, the Company granted a total of 1,240,000 stock options vesting immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.25 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.22 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 162%; risk free interest rate of 3.11% and; expected life of five years.

On July 1, 2010, the Company granted 500,000 stock options to a director of the Company. The stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.20 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.17 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 130%; risk free interest rate of 2.37% and; expected life of five years.

On September 9, 2010, the Company granted a total of 300,000 stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.23 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.25 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 162%; risk free interest rate of 3.11% and; expected life of five years.

9. STOCK-BASED COMPENSATION (continued)

On October 18, 2010, the Company granted a total of 3,230,000 stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.50 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.47 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 165%; risk free interest rate of 1.95% and; expected life of five years. As of December 31, 2010, the following stock options were outstanding:

Value $	Outstanding Options \#	Options Exercisable \#	Exercise Price $	Expiry Date
164,450	650,000	650,000	0.30	March 28, 2012
27,000	100,000	100,000	0.35	June 4, 2012
58,000	1,450,000	1,450,000	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
1,518,100	3,230,000	3,230,000	0.50	October 18, 2015
2,196,850	7,395,000	7,395,000		

10. CONTRIBUTED SURPLUS

	December 31 2010	September 30, 2010
Balance at beginning of period	$ 1,503,000	$ 509,647
Expiry of broker warrants	-	45,000
Expiry of warrants	-	546,353
Exercise of stock options	-	(43,800)
Stock options granted	1,518,100	445,800
Balance at end of period	$ 3,021,100	$ 1,503,000

11. 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 2010, rent of approximately $15,000 (December 31, 2009 - $7,900) charged by this corporation was included in office and general expenses.

During the period, the Company incurred consulting fees and management fees of approximately $132,750 (December 31, 2009 - $62,250) paid to certain directors and officers of the Company.

12. 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. There have been no significant changes in the risks, objectives, policies and procedures from the previous year, with exception to the additional capital obtained from due to shareholder and loan payable.

12. FINANCIAL INSTRUMENTS (continued)

(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, due to shareholder, loan payable 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 funds held in Canadian banks, refundable exploration tax credits due from the British Columbia Government, sales taxes due from the Federal Government of Canada, and IVA recoverable from the Mexican government which are included in long-term receivables. The IVA recoverable amount has been subject to audit by the Mexican taxation authorities, who have initially denied the Company's request for refund. Management is currently appealing this decision and expects that the IVA recoverable from the Mexican government will be fully recoverable; however, the timing of recovery is uncertain.

(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.

(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 loan payable subject to fluctuations in interest rates. 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. The Company also monitors the loan payable interest rate on an ongoing basis. Currently, the Company does not hedge against interest rate risk.

(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.

12. FINANCIAL INSTRUMENTS (continued)

(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 $4,000 based on the cash balance at December 31, 2010.

(f) Fair values

The Company has designated its cash as held-for-trading, which is 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, 2010, 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.

Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash and cash equivalents of $3,982,839 is considered to be Level one and is the only financial instrument measured at fair value for the Company at December 31, 2010, in accordance to the amendment to Handbook Section 3862.

13. 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, due to shareholder, loan payable 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 significant changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

14. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $1,182,000 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 $465,750, due within one year.

The Company is subject to various lease commitments and is committed to expenditures of $77,048 in fiscal year 2011 and $31,000 in fiscal year 2012.

The Company's mining and exploration activities are subject to various federal, provincial and international 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. The Company is also committed to certain common area costs in relation to their mining and exploration activities.