CASTLE RESOURCES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited 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, 2011 $	September 30, 2011 $	October 1, 2010 $
		(Note 19)	(Note 19)
ASSETS			
Current			
Cash and cash equivalents	1,626,842	2,848,178	101,483
Amounts receivable	4,229,444	4,892,730	766,055
Prepaid expenses	742,691	135,597	15,904
Deferred income taxes	-	-	85,000
	6,598,977	7,876,505	968,442
Long-term			
Prepaid expenses	113,831	430,331	98,475
Deferred transaction costs	-	-	37,619
Long-term receivables (Note 8)	84,941	87,716	92,205
Equipment (Note 7)	16,854	17,992	7,538
Exploration and evaluation assets (Note 8)	29,124,873	24,368,649	6,287,811
	35,939,476	32,781,193	7,492,090
LIABILITIES			
Current			
Accounts payable and accrued liabilities	3,733,134	5,448,420	2,385,851
Due to shareholder	-	-	100,000
Other liabilities (Note 10)	54,251	-	-
	3,787,385	5,448,420	2,485,851
Long-term			
Loan payable (Note 9)	2,137,434	2,069,411	1,783,590
	5,924,819	7,517,831	4,269,441
SHAREHOLDERS' EQUITY			
Capital stock (Note 10)	33,208,759	28,313,984	8,424,769
Contributed surplus (Note 12)	4,089,316	4,089,316	825,711
Warrants (Note 11)	3,746,325	3,748,425	840,629
Deficit	(11,029,743)	(10,888,363)	(6,868,460)
	30,014,657	25,263,362	3,222,649
	35,939,476	32,781,193	7,492,090

COMMITMENTS AND CONTINGENCIES (Note 17)

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 ended December 31, 2011 $	December 31, 2010 $ (Note 19)
Expenses		
Share-based compensation	-	1,518,100
Professional fees	39,239	14,466
Consulting and management fees	63,241	81,015
Transfer agent and listing fees	3,953	10,047
Office and general	71,122	28,014
Interest and financing fees (Note 9)	74,485	83,220
Depreciation costs	1,138	465
	253,178	1,735,327
Loss before the undernoted	(253,178)	(1,735,327)
Interest income	10,606	12,598
Write-down of exploration and evaluation assets (Note 8)	(606,461)	-
Net loss before income taxes	(849,033)	(1,722,729)
Provision for income taxes		
Flow-through share premium	707,653	220,000
Deferred income taxes	-	100,000
Net loss and comprehensive loss for the period	(141,380)	(1,402,729)
Basic and diluted loss per share	(0.00)	(0.02)
Weighted average common shares outstanding Basic and diluted	113,852,920	75,899,331

CASTLE RESOURCES INC.

Condensed Interim Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	For the three months ended December 31, 2011 $	December 31, 2010 $ (Note 19)
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	$ (141,380)	$ (1,402,729)
Charges not affecting cash:		
Share-based compensation	-	1,518,100
Depreciation costs	1,138	465
Flow-through share premium	(707,653)	(220,000)
Deferred income taxes recovery	-	(100,000)
Write-down of exploration and evaluation assets	606,461	-
Interest and financing fees	68,023	83,211
Net change in non-cash working capital	(1,659,094)	(194,405)
	(1,832,505)	(315,358)
INVESTING ACTIVITIES		
Exploration and evaluation assets	(5,043,410)	(5,221,602)
FINANCING ACTIVITIES		
Common shares issued through private placements	5,999,994	10,320,000
Repayment of shareholder loan	-	(100,000)
Broker warrants exercised	-	1,110
Warrants exercised	9,000	83,666
Share issue costs	(354,415)	(886,459)
	5,654,579	9,418,317
CHANGE IN CASH AND CASH EQUIVALENTS:	$ (1,221,336)	$ 3,881,357
Cash and cash equivalents, beginning of period	2,848,178	101,483
Cash and cash equivalents, end of period	$ 1,626,842	$ 3,982,840

CASTLE RESOURCES INC.

Condensed Interim Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Common shares $	Contributed surplus $	Warrant Reserve $	Accumulated Deficit $	Total Equity $
Balance, September 30, 2011	28,313,984	4,089,316	3,748,425	(10,888,363)	25,263,362
Warrants exercised	11,100	-	(2,100)	-	9,000
Private placement	4,883,675		-	-	4,883,675
Loss for the period	-	-	-	(141,380)	(141,380)
Balance, December 31, 2011	33,208,759	4,089,316	3,746,325	(11,029,743)	30,014,657

	Common shares $	Contributed surplus $	Warrant Reserve $	Accumulated Deficit $	Total Equity $
Balance, October 1, 2010	8,424,769	825,711	840,629	(6,868,460)	3,222,649
Private placement	6,613,584	-	2,608,956	-	9,222,540
Warrants exercised	105,649	-	(21,983)	-	83,666
Broker warrants exercised	1,994	-	(884)	-	1,110
Shares issued on property acquisition	1,429,000	-	-	-	1,429,000
Shares issued as advance royalty	22,500	-	-	-	22,500
Share-based payment	-	1,518,100	-	-	1,518,100
Loss for the period	-	-	-	(1,402,729)	(1,402,729)
Balance, December 31, 2010	16,597,496	2,343,811	3,426,718	(8,271,189)	14,096,836

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 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. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations, however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

These 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.

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.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on March 21, 2012.

2. BASIS OF PREPARATION

(a) Conversion to IFRS

These condensed interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*" ("IAS 34") using accounting policies consistent with the IFRS issued by the International Accounting Standard Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2. BASIS OF PREPARATION (continued)

These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its September 30, 2012 annual consolidated financial statements. Those accounting policies are based on the IFRS standards and IFRIC interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). These statements should be read in conjunction with the consolidated financial statements for the year ended September 30, 2011. Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures which are considered material to the understanding of the Company's interim consolidated financial statements and which are normally included in annual consolidated financial statements prepared in accordance with IFRS are provided in the following notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive income, and the statement of financial position and cash flows.

(b) Basis of preparation

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of investments which are measured at fair value through profit or loss ("FVTPL").

The preparation of consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new accounting standards, amendments to standards and interpretations have been issued.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 was issued in November 2009. This standard is the first step in the process to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. The standard is not applicable until January 1, 2015 but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IAS 1 Presentation of Other Comprehensive Income
In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" requiring companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. Early adoption is permitted.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the consolidation guidance in IAS 27, *and Separate Financial Statements,* and SIC-12, *Consolidation — Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.

IFRS 11 Joint Arrangements
IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the operation's assets, liabilities, revenue and expenses. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 and supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Ventures. The Company has yet to assess the full impact of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 *requires* enhanced disclosures about both entities and unconsolidated entities in which an entity has involvement.

IFRS 13 Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has yet to assess the full impact of IFRS 13.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these condensed interim 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 condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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 non-current 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.

5. SIGNIFICANT ACCOUNTING POLICIES

(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 of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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 the condensed interim statements of comprehensive 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign Currencies

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.

(c) 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 payment note.

The fair value is determined 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.

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 fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(d) 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. 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Tax (continued)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred tax assets and liabilities on a net basis.

(e) Exploration and evaluation assets

The Company's property interests are in the exploration and evaluation stage and accordingly 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 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. Upon transfer of "Exploration and evaluation costs" into "Mine Development", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Mine development". After production starts, all assets included in "Mine development" are transferred to "Producing Mines".

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed. To the extent that exploration expenditures are not expected to be recovered, they are charged to profit or loss.

(f) 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	-	30%, declining balance basis
Computer software	-	100%, declining balance basis

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 the statement of comprehensive loss so as to reduce the carrying amount to its recoverable amount.

(h) 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, short-term investments and amounts receivables.

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 in the statement of comprehensive loss.

The Company has not designated any financial assets upon initial recognition as at FVTPL. 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 though 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts receivable
Amounts receivable are non-derivative financial asset 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 comprehensive loss.

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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 comprehensive 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 comprehensive 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 statement of comprehensive 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.

Financial liabilities

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.

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

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.

(i) Share Capital

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, share purchase warrants and flow-through shares are classified as equity instruments.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(j) 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) share capital. Upon expenses being incurred, the Company derecognizes the 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.

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 period is disclosed separately as flow-through share proceeds.

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 accrued as financial expense until paid.

(k) 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 period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share 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 period. 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.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks and liquid short-term deposits in the form of high interest savings and money market accounts with original maturities of three months or less. The Company does not hold any asset backed commercial paper.

6. AMOUNTS RECEIVABLE

	December 31, 2011	September 30, 2011
GST/HST recoverable	$ 803,922	$ 1,466,530
Refundable exploration tax credits	3,425,522	3,425,522
Other receivable	-	678
Balance at end of period	$ 4,229,444	$ 4,892,730

7. EQUIPMENT

December 31, 2011

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 17,002	$ 5,361	$ 11,641
Computer equipment	12,044	7,237	4,807
Computer software	8,227	7,821	406
	$ 37,273	$ 20,419	$ 16,854

September 30, 2011

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 17,002	$ 4,749	$ 12,253
Computer equipment	12,044	6,847	5,197
Computer software	8,227	7,685	542
	$ 37,273	$ 19,281	$ 17,992

8. EXPLORATION AND EVALUATION ASSETS

Granduc Claims, British Columbia, Canada

Balance at September 30, 2010	$ 4,134,829
Acquisition costs	3,522,500
Capitalized costs	16,836,525
Exploration costs	(142,503)
Less: refundable exploration tax credits	(3,425,522)
Balance at September 30, 2011	$ 20,925,829
Acquisition costs	50,000
Capitalized costs	5,201,468
Balance at December 31, 2011	$ 26,177,297

The Elmtree Gold Project, New Brunswick, Canada

Balance at September 30, 2010	$ 1,748,218
Acquisition costs	50,000
Exploration costs	(6,667)
Capitalized costs	670,609
Balance at September 30, 2011	$ 2,462,160
Acquisition costs	-
Capitalized costs	36,409
Balance at December 31, 2011	$ 2,498,569

The Horseshoe Claims, British Columbia, Canada

Balance at September 30, 2010	$ 105,934
Acquisition costs	134,000
Capitalized costs	291,719
Balance at September 30, 2011	$ 531,653
Capitalized costs	74,808
Write-down of property	(606,461)
Balance at December 31, 2011	$ -

The San Ramon Claim Group, Silver Project, Mexico

Balance at September 30, 2010	$ 448,000
Capitalized costs	1,007
Balance at September 30, 2011	$ 449,007
Capitalized costs	-
Balance at December 31, 2011	$ 449,007

Total exploration and evaluation assets, December 31, 2011	**$ 29,124,873**

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, the Company paid Bell Copper 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 of $4,500,000 and 3,000,000 common shares of the Company.

8. EXPLORATION AND EVALUATION ASSETS (continued)

The Granduc Project, British Columbia, Canada (continued)

On August 16, 2011, the Company completed an acquisition of a mining claim located in the Skeena mining division in British Columbia. in connection with the development of 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. The common shares issued in connection with the acquisition will all be subject to a four month regulatory hold period commencing from the date of issue.

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. At December 31, 2011, the Company paid $25,000 cash and issued 50,000 common shares. Subsequent to period end, the Company paid $25,000 cash and issued 51,021 common shares

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, Canada.

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 (completed); 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 (completed).

(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 (paid).

The Company has completed the First Option and therefore can earn a 60% interest in Stratabound's 100% owned Elmtree Gold Property.

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%.

8. EXPLORATION AND EVALUATION ASSETS (continued)

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 ($38,260 spent as at June 30, 2011).
(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.

On December 5, 2011, the Company terminated further exploration work on the Horseshoe Property with all obligations from that date being terminated and no interest earned or retained.

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.

During 2011, MAG has completed required exploration expenditures on the property of the first year of the option. MAG continues to option the San Ramon property and conduct exploration work.

Included in long term receivables is IVA recoverable (Mexican value added tax) of $84,941.

9. 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 $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 debenture to be accreted over the term of the debenture. During the three months period ended December 31, 2011, the Company recorded $68,023 (2010 - $83,234) interest, accretion expense and finance fees in the consolidated statements of operations and deficit.

10. OTHER LIABILITIES

	Issued on October 19, 2011
Balance at October 1, 2011	$ -
Liability incurred on flow-through shares issued	761,904
Settlement of flow-through share liability on incurring expenditures	(707,653)
Balance at December 31, 2011	$ 54,251

On October 19, 2011 the company completed a brokered private placement for total proceeds of $5,999,994 consisting of 9,523,800 flow-through shares at $0.63 per share. Other liabilities include the liability portion of the flow through shares issued. At December 31, 2011, the Company incurred approximately $5,572,764 in qualifying resource expenditure. The Company derecognized $707,653 liability and recognizes a deferred tax liability of $1,688,547. The Company has utilized the deferred tax assets in the form of tax loss carry-forwards to offset the deferred tax liability.

11. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	Number #	Amount $
Balance at September 30, 2010	47,144,937	8,424,768
Private placement (i)	32,112,500	10,320,000
Private placement – warrant valuation (i)	-	(2,520,239)
Share issue costs (i)	-	(1,278,972)
Flow-through share premium	-	(220,000)
Shares issued on property acquisitions (Note 8)	2,870,000	1,429,000
Shares issued as advance royalty (Note 8)	50,000	22,500
Warrants and broker warrants exercised	4,120,899	1,060,257
Warrants and broker warrants exercised – value reallocation	-	258,682
Warrants and broker warrants exercised	62,083	11,625
Private placement (ii)	19,675,000	12,001,750
Share issue costs (ii)	-	(1,298,287)
Stock options exercised	45,000	12,500
Stock options exercised – value reallocation	-	10,400
Shares issued on property acquisitions (Note 8)	94,118	80,000
Balance at September 30, 2011	106,174,537	28,313,984
Private placement (iii)	9,523,800	5,999,994
Share issue costs (iii)	-	(354,415)
Flow-through share premium (Note 10)	-	(761,904)
Warrants exercised	30,000	9,000
Warrants exercised – value reallocation	-	2,100
Balance at December 31, 2011	115,728,337	33,208,759

(i) 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 half of one common share purchase warrant), and 1,100,000 flow-through shares at a purchase price of $0.36 per flow-through share for gross proceeds of $396,000. Each whole 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 12(i) for additional details.

11. CAPITAL STOCK (continued)

(ii) On February 18, 2011, the Company closed a brokered private placement offering. The Company issued 19,675,000 shares at a price of $0.61 each for gross proceeds of $12,001,750.

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 shares issued. Each compensation warrant entitles the holder to exercise at a price of $0.61 for one common share of the Company, until February 18, 2013. On closing, the Company paid an aggregate amount of $720,105 in cash commissions and issued an aggregate of 1,180,500 compensation warrants. The Company incurred $28,921 in legal fees.

Refer to Note 12(ii) for additional details.

(iii) On October 19, 2011, the Company closed a brokered private placement comprised of 9,523,800 flow-through shares at a price of $0.63 per share for gross proceeds of $5,999,994. In connection with the private placement, the Company paid cash commissions of 5% of the gross proceeds raised. As a result of this private placement, the Company is required to spend up to $5,999,994 on qualified exploration expenditures by December 31, 2012.

12. WARRANTS

	Number #	Amount $
Balance at September 30, 2010	13,144,299	840,629
Private placement (i)	15,506,250	2,520,239
Warrant issue costs (i)	-	(354,485)
Warrants and broker warrants (i)	2,247,875	562,000
Warrant exercise	(3,807,799)	(242,180)
Warrants and broker warrants exercised	(15,450)	(1,502)
Debt facility warrants exercise (Note 9)	(300,000)	(15,000)
Warrants and broker warrants (ii)	1,180,500	460,400
Expiry of warrants	(412,500)	(21,676)
Balance at September 30, 2011	27,543,175	3,748,425
Warrants exercised	(30,000)	(2,100)
Balance at December 31, 2011	27,513,175	3,746,325

(i) In connection with the October 7, 2010 private placement (Note 11(i), 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 $562,000 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 of a common share purchase warrant exercisable at a price of $0.32 for a two year period.

12. WARRANTS (continued)

(ii) In connection with the February 18, 2011 private placement (Note 11(ii)), the agent received 1,180,500 finder's warrants which entitle the holder to purchase one common share of the Company at a price of $0.61. The finder's warrants are exercisable for 2 years. The estimated fair value of the finder's warrants of $460,400 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 128%, a risk-free interest rate of 1.88% and an expected life of 2 years. As of December 31, 2011, the following warrants were outstanding:

Value $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
270,150	4,095,000	4,095,000	0.30	January 31, 2012
65,886	675,000	675,000	0.33	January 31, 2012
30,240	378,000 (i)	378,000	0.20	January 31, 2012
773	5,550 (ii)	5,550	0.20	January 31, 2012
2,179,478	15,331,250	15,331,250	0.50	October 7, 2012
404,600	2,247,875 (iii)	2,247,875	0.32	October 7, 2012
129,900	1,180,500 (iv)	1,180,500	0.61	February 18, 2013
216,000	3,600,000 (v)	3,600,000	0.25	July 14, 2015
3,297,027	27,513,175	27,513,175		

(i) These are brokers' warrants issued in connection with the July 19, 2010 private placement exercisable into units.
(ii) These are warrants attached to brokers' warrants issued in connection with the July 19, 2010 private placement exercisable into units.
(iii) These are broker's warrants issued in connection with the October 7, 2010 private placement exercisable into unit.
(iv) These are brokers' warrants issued in connection with the February 18, 2011 private placement.
(v) These are drawdown warrants issued in connection with the debt facility (Note 9).

13. SHARE-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 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.
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;

13. SHARE-BASED COMPENSATION (continued)

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

	December 31, 2011		September 30, 2011	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of period	10,010,000	0.43	4,165,000	0.20
Granted	-	-	5,890,000	0.59
Exercised	-	-	(45,000)	0.28
Balance, end of period	10,010,000	0.43	10,010,000	0.43

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.

On January 20, 2011, the Company granted 860,000 stock options to an officer 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 $0.60 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.57 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 173%; risk free interest rate of 2.56% and; expected life of five years.

On March 2, 2011, the Company granted a total of 1,700,000 stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.75 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.71 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 172%; risk free interest rate of 2.60% and; expected life of five years.

On August 2, 2011, the Company granted a total of 100,000 stock options, 66,666 of which vested immediately, an additional 16,667 of which vests in 1 year and another 16,667 of which vest in 2 years. Each option allows the holder to purchase one share of the Company at an exercise price of $0.88 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.80 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 158%; risk free interest rate of 1.86% and; expected life of five years

13. SHARE-BASED COMPENSATION (continued)

As of December 31, 2011, 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
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
1,508,700	3,210,000	3,210,000	0.50	October 18, 2015
490,200	860,000	860,000	0.60	January 21, 2016
1,207,000	1,700,000	1,700,000	0.75	March 2, 2016
58,705	100,000	100,000	0.88	August 2, 2016
3,942,355	10,010,000	10,010,000		

14. RELATED PARTY TRANSACTIONS

These unaudited condensed interim financial statements include balances and transactions with directors and officers of the Company and/or corporations related to them. During the three months ended December 31, 2011 and September 30, 2011, the Company entered into the following transactions involving related parties:

The transactions with related parties were incurred in the normal course of business and were measured at the exchange amount. Related party transactions are listed below:

Key Management Compensation

	Three months ended December 31, 2011	**Year ended September 30, 2011**
Exploration expenditures	$ 161,125	$ 743,428
Consulting fees	44,625	206,425
Share-based payments	-	3,011,700
Directors' fees	7,871	78,168
	$ 213,621	$ 4,039,721

The Company rents office space from a corporation controlled by a director of the Company. During the three months ended December 31, 2011, rent of approximately $20,100 (December 31, 2010 – $15,000) charged by this corporation was included in office and general expenses.

15. 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 equity, comprised of issued common shares, warrants, contributed surplus 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 development 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 the three months period ended December 31, 2011. 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.

16. 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 changes in the risks, objectives, policies and procedures during 2011 and 2010.

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.

As at December 31, 2011, the Company had a cash balance of $1,626,842 (September 30, 2011 - $2,848,178), to settle current liabilities of $3,787,385 (September 30, 2011 - $5,448,420).The Company has working capital of $2,811,592 at December 31, 2011 (September 30, 2011 - $2,428,085). Subsequent to period-end, the Company raised $10,000,080 on a bought deal basis.

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.

16. FINANCIAL RISK MANAGEMENT (continued)

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. Financial instruments included in amounts receivable consist of harmonized sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in the amounts receivable is remote.

Sensitivity analysis
As at December 31, 2011, 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:

The Company has short-term investments as at December 31, 2011 at interest rates of 1.58%. A change in interest rates of 1% will result in a corresponding change in net loss of approximately $18,000 based on the short-term investment balance at December 31, 2011.

Fair Value
The Company has designated its cash equivalents 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 are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash amounts receivable and accounts payable and accrued liabilities 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, September 30, 2011 and October 1, 2010, the Company’s financial instruments that are carried at fair value, consisting of cash equivalents, has been classified as Level 2 within the fair value hierarchy.

17. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to $1,730,000 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 $950,000, due within one year.

The Company is subject to various lease commitments and is committed to expenditures of $104,700 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.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements**.** In October 2011, the Company raised $5,999,994 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2012. At December 31, 2011, the Company has spent $5,572,764 on qualified resource expenditures.

18. SUBSEQENT EVENTS

Private placement

On March 15, 2012, the entered into an into an agreement with a syndicate of underwriters led by Mackie Research Capital Corporation whereby the underwriters will purchase on a bought-deal basis, $10,000,080 in a combination of common shares (maximum 5,000,000) and flow-through shares (up to 18,182,000) at a price of $0.40 per common share and $0.44 per flow-through share. The underwriters will also have the option to purchase from the Company up to an additional 15% of the number of common shares and flow-through shares sold pursuant to the offering.

Warrants exercise

The Company received approximately $1,604,000 on the exercise of 5,382,600 warrants and broker warrants.

19. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending September 30, 2012 will be the first annual consolidated financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual consolidated financial statements prepared under IFRS by making an explicit and unreserved statement in those consolidated financial statements of compliance with IFRS. The Company will make this statement when it issues its 2012 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company applied IFRS was October 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period, which for the Company will be September 30, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

19. TRANSITION TO IFRS (continued)

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Mandatory Exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods to the previously-reported Canadian GAAP amounts for comparative periods. The changes made to the statements of financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows; however as there have been no changes to the net cash flows, no reconciliations of cash flows has been presented.

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of financial position as of October 1, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		101,483	-	101,483
Amounts receivable		766,055	-	766,055
Prepaid expenses		15,904		15,904
Deferred income taxes		85,000	-	85,000
		968,442	-	968,442
Long-term				
Prepaid expenses		98,475	-	98,475
Deferred transaction costs		37,619	-	37,619
Long-term receivable		92,205		92,205
Equipment		7,538		7,538
Exploration and evaluation assets		6,436,981	(149,170)	6,287,811
		7,641,260	(149,170)	7,492,090
LIABILITIES				
Current				
Accounts payable and accrued liabilities		2,385,851	-	2,385,851
Due to shareholder		100,000	-	100,000
		2,485,851	-	2,485,851
Long-term				
Loan payable		1,783,590	-	1,783,590
		4,269,441	-	4,269,441
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	8,492,269	(67,500)	8,424,769
Contributed surplus	(iii)	1,503,000	(677,289)	825,711
Warrants		840,629	-	840,629
Deficit		(7,464,079)	595,619	(6,868,460)
		3,371,819	(149,170)	3,222,649
		7,641,260	(149,170)	7,492,090

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of financial position as of December 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		3,982,840	-	3,982,840
Amounts receivable		899,057	-	899,057
Prepaid expenses		59,065		59,065
Deferred income taxes		194,000	-	194,000
			-	
		5,134,962		5,134,962
Long-term				
Prepaid expenses		98,475	-	98,475
Long-term receivable		92,205	-	92,205
Equipment		7,073	-	7,073
Exploration and evaluation assets		11,307,531	(149,170)	11,158,361
		16,640,246	(149,170)	16,491,076
LIABILITIES				
Current				
Accounts payable and accrued liabilities		527,439	-	527,439
Long-term				
Loan payable		1,866,801	-	1,866,801
		2,394,240	-	2,394,240
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	16,884,996	(287,500)	16,597,496
Contributed surplus	(iii)	3,021,100	(677,289)	2,343,811
Warrants		3,426,718	-	3,426,718
Deficit		(9,086,808)	815,619	(8,271,189)
		14,246,006	(149,170)	14,096,836
		16,640,246	(149,170)	16,491,076

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of financial position as of September 30, 2011

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		2,848,178	-	2,848,178
Amounts receivable		4,892,730	-	4,892,730
Prepaid expenses		135,597	-	135,597
		7,876,505	-	7,876,505
Long-term				
Prepaid expenses		430,331	-	430,331
Long-term receivable		87,716	-	87,716
Equipment		17,992	-	17,992
Exploration and evaluation assets		24,517,819	(149,170)	24,368,649
		32,930,363	(149,170)	32,781,193
LIABILITIES				
Current				
Accounts payable and accrued liabilities		5,448,420	-	5,448,420
Long-term				
Loan payable		2,069,411	-	2,069,411
		7,517,831	-	7,517,831
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	28,601,484	(287,500)	28,313,984
Contributed surplus	(iii)	4,788,281	(698,965)	4,089,316
Warrants		3,748,425	-	3,748,425
Deficit		(11,725,658)	837,295	(10,888,363)
		25,412,532	(149,170)	25,263,362
		32,930,363	(149,170)	32,781,193

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of comprehensive loss for the three months ended December 31, 2010

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Expenses			
Stock-based compensation	1,518,100		1,518,100
Professional fees	14,466	-	14,466
Management and consulting fees	81,015	-	81,015
Transfer agent and listing fee	10,047	-	10,047
Office and general	28,014	-	28,014
Interest and financing fees	83,220	-	83,220
Depreciation costs	465	-	465
	1,735,327	-	1,735,327
Loss before the undernoted	(1,735,327)	-	(1,735,327)
Interest income	12,598	-	12,598
Net loss and comprehensive loss before income tax	(1,722,729)	-	(1,722,729)
Provision for income taxes			
Flow-through share premium	-	220,000	220,000
Deferred income taxes	100,000	-	100,000
Net loss and comprehensive loss for the period	(1,622,729)	220,000	(1,402,729)
Basic and diluted loss per share	(0.02)	-	(0.02)
Weighted average number of shares outstanding – basic and diluted	75,899,331	-	75,899,331

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of comprehensive loss for the year ended September 30, 2011

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Expenses				
Stock-based compensation		3,274,005		3,274,005
Professional fees		163,210	-	163,210
Management and consulting fees		469,219	-	469,219
Transfer agent and listing fee		42,217	-	42,217
Office and general		257,473	-	257,473
Interest and financing fees		286,058	-	286,058
Depreciation costs		4,031	-	4,031
		4,496,213	-	4,496,213
Loss before the undernoted		(4,496,213)	-	(4,496,213)
Interest income		118,787	-	118,787
Gain on settlement of lawsuit		15,847	-	15,847
Net loss and comprehensive loss before income tax		(4,361,579)	-	(4,361,579)
Provision for income taxes				
Flow-through share premium		-	220,000	220,000
Deferred income taxes		100,000	-	100,000
Net loss and comprehensive loss for the period		(4,261,579)	220,000	(4,041,579)
Deficit, beginning of the period		(7,464,079)	617,295	(6,846,784)
Deficit, end of the period		(11,725,658)	837,295	(10,888,363)
Basic and diluted loss per share		(0.05)	-	(0.05)
Weighted average number of shares outstanding – basic and diluted		90,088,539	-	90,088,539

19. TRANSITION TO IFRS (continued)

Adjustments on transition to IFRS

(i) Exploration and Evaluation Assets

Under IFRS, once legal rights to explore a property has been acquired, costs directly related to exploration and evaluation expenditure are recognized and capitalized, in addition to the acquisition costs. Pre-exploration costs are expensed in the period in which they are incurred. As a result pre-exploration costs is derecognized as exploration and evaluation assets and recorded instead as an expense. The impact of the change was an increase to deficit and a decrease to exploration and evaluation assets of $149,170 at October 1, 2010.

(ii) Flow-through shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of the flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, 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) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company had used them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. As a result, flow-through share premium is derecognized as share capital and recorded instead as a flow through share premium liability. To reflect the expenditures incurred by October 1, 2011, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision. The Company had used tax loss carry-forwards to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. The impact of the change was a reclassification from share capital to flow-through share premium of $67,500 at October 1, 2010; December 31, 2010 - $287,500 and September 30, 2011 - $287,500.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in ‘other liabilities’. This resulted in a liability of $Nil at the date of transition (September 30, 2011 - $Nil).

(iii) Contributed surplus

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company’s Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to contributed surplus payments reserve of $677,289 at October 1, 2010 and December 31, 2010; $698,965 at September 30, 2011.