

CASTLE RESOURCES INC.
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MARCH 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, 2009 audited consolidated financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements; management is satisfied that these unaudited interim consolidated financial statements have been fairly presented.

Auditor Involvement

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

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CASTLE RESOURCES INC.
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
As at

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	March 31, 2010	September 30, 2009
Current		
Cash and cash equivalents	\$ 162,050	\$ 125,202
Amounts receivable (Note 3)	106,266	127,121
Subscription receivable	304,480	-
Prepaid expenses	<u>4,474</u>	<u>18,320</u>
	577,270	270,643
Long-term		
Equipment (Note 4)	5,405	6,304
Interest in mineral properties (Note 5)	<u>1,558,831</u>	<u>1,100,367</u>
	<u>\$ 2,141,506</u>	<u>\$ 1,377,314</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 156,285	\$ 186,353

SHAREHOLDERS' EQUITY

Capital stock (Note 6)	7,364,843	6,470,696
Contributed surplus (Note 9)	554,647	509,647
Warrants (Note 7)	680,344	591,353
Deficit	<u>(6,614,613)</u>	<u>(6,380,735)</u>
	<u>1,985,221</u>	<u>1,190,961</u>
	<u>\$ 2,141,506</u>	<u>\$ 1,377,314</u>

COMMITMENTS AND CONTINGENCIES (Notes 1, 5, 6 and 10)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

Unaudited; See accompanying notes to the interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
Expenses				
Consulting and management fees	\$ 57,750	\$ 65,000	\$ 117,120	\$ 112,500
Professional fees	19,114	55,377	27,739	132,617
Transfer agent and listing fee	9,574	12,631	18,161	15,530
Office and general	26,454	34,635	69,960	66,117
Amortization	449	590	898	1,214
	<u>113,341</u>	<u>168,233</u>	<u>233,878</u>	<u>327,978</u>
Loss before the undernoted	(113,341)	(168,233)	(233,878)	(327,978)
Interest income	-	8,103	-	18,463
Net loss before income taxes	(113,341)	(160,130)	(233,878)	(309,515)
Deficit, beginning of period	<u>(6,501,272)</u>	<u>(1,892,842)</u>	<u>(6,380,735)</u>	<u>(1,743,457)</u>
Deficit, end of period	<u><u>\$(6,614,613)</u></u>	<u><u>\$(2,052,972)</u></u>	<u><u>\$(6,614,613)</u></u>	<u><u>\$(2,052,972)</u></u>
Basic and diluted income (loss) per share	(0.00)	(0.01)	(0.01)	(0.01)
Weighted average common shares outstanding	30,507,783	26,684,521	30,434,458	26,684,521
- basic and diluted				

Unaudited; See accompanying notes to the interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
CASH (USED IN) PROVIDED BY:				
OPERATING ACTIVITIES:				
Net loss for the period	\$ (113,992)	\$ (160,130)	\$ (234,529)	\$ (309,515)
Charges not affecting cash:				
Amortization	449	590	898	1,214
Part XII.6 tax	651	-	651	-
Net change in non-cash working capital	<u>(287,269)</u>	<u>(40,205)</u>	<u>(260,391)</u>	<u>(14,559)</u>
	<u>(400,161)</u>	<u>(199,745)</u>	<u>(493,371)</u>	<u>(322,860)</u>
INVESTING ACTIVITIES:				
Interest in mineral properties	(82,034)	(50,725)	(502,119)	(115,446)
Equipment-Acquisitions	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216)</u>
	<u>(82,034)</u>	<u>(50,725)</u>	<u>(502,119)</u>	<u>(115,662)</u>
FINANCING ACTIVITIES				
Private placement	621,000	-	1,101,440	-
Share issue costs	<u>(47,713)</u>	<u>-</u>	<u>(69,102)</u>	<u>-</u>
	<u>573,287</u>	<u>-</u>	<u>1,032,338</u>	<u>-</u>
CHANGE IN CASH AND CASH EQUIVALENTS	91,092	(250,470)	36,848	(438,522)
Cash and cash equivalents, beginning of period	<u>70,958</u>	<u>1,214,408</u>	<u>125,202</u>	<u>1,402,460</u>
Cash and cash equivalents, end of period	<u>\$ 162,050</u>	<u>\$ 963,938</u>	<u>\$ 162,050</u>	<u>\$ 963,938</u>
Cash and cash equivalents represented as follows:				
Cash	162,050	55,376	162,050	55,376
Short-term investments	<u>-</u>	<u>908,562</u>	<u>-</u>	<u>908,562</u>
Cash and cash equivalents	<u>\$ 162,050</u>	<u>\$ 963,938</u>	<u>\$ 162,050</u>	<u>\$ 963,938</u>

Unaudited; See accompanying notes to the interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company has interests in mineral properties located in Mexico and Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in 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. Most of the Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations and restrictions.

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

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

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 six month period ended March 31, 2010 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2010.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

a) Interest in mineral properties

Exploration expenses relating to mineral properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale. Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. Management's assessment of the property's estimated current value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

b) 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 fixtures	- 20%, declining balance basis
Computer equipment	- 30%, declining balance basis
Computer software	- 100%, declining balance basis

The Company recognizes an impairment loss on equipment when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its fair value.

c) Measurement uncertainty and use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, brokers' options 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.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

d) Asset retirement obligations

The Company recognizes the fair value of a liability for asset retirement obligation in the year in which it is incurred when a reasonable estimate of a fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimated undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. As at March 31, 2010, management has determined that there are no asset retirement obligations.

e) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Using this method, future income tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

f) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. Warrants in Note 7 and options in Note 8 have not been included in diluted loss per share as they are anti-dilutive.

h) Foreign currency translation

The consolidated financial statements have been presented in Canadian dollars. Accounts of foreign operations which are considered financially and operationally integrated are translated to Canadian dollars using the temporal method of accounting for foreign currency translation. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses, except for amortization which is translated at historical rates, are translated using average exchange rates for the period. Translation gains and losses are included in operations.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

i) Flow-through financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce capital stock

j) Capital disclosures

The Company adopted CICA Handbook Section 1535. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 12 to these consolidated financial statements.

k) Financial instruments

The Company adopted CICA Handbook Sections 3862 and 3863 regarding Financial Instruments. Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 11 to these consolidated financial statements.

l) Cash and cash equivalents

The Company classified cash, redeemable investment deposits, and deposits with original maturities less than or equal to three months as cash and cash equivalents.

m) General standards on financial statement presentation

The Company adopted the recommendations in CICA Handbook Section 1400, "General Standards of Financial Statements Presentation" which includes requirements to assess an entity's ability to continue as a going concern; disclosure of material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern; disclosure of when financial statements are not prepared on a going concern basis, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

n) 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.

3. AMOUNTS RECEIVABLE

Included in amounts receivable is \$90,047 (September 30, 2009 - \$89,249) IVA recoverable (Mexican value added tax) and \$13,578 (September 30, 2009 - \$37,872) GST recoverable.

4. EQUIPMENT

March 31, 2010

	Cost	Accumulated Amortization	Net
Office furniture and equipment	\$ 4,765	\$ 2,304	\$ 2,461
Computer equipment	7,447	4,631	2,816
Computer software	7,127	6,999	128
	\$ 19,339	\$ 13,934	\$ 5,405

September 30, 2009

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

5. INTEREST IN MINERAL PROPERTIES

The San Ramon Claim Group, Silver Project, Mexico

Balance at September 30, 2007	\$ 3,565,706
Capitalized costs	<u>528,631</u>
Balance at September 30, 2008	\$ 4,094,337
Capitalized costs	126,454
Option payment received	(84,606)
Write-down	<u>(3,688,185)</u>
Balance at September 30, 2009	\$ 448,000
Capitalized costs	-
Balance at March 31, 2010	<u>\$ 448,000</u>

The Elmtree Gold Project, New Brunswick, Canada

Balance at September 30, 2008	\$ -
Acquisition costs	115,945
Capitalized costs	<u>519,122</u>
Balance at September 30, 2009	\$ 635,067
Capitalized costs	<u>364,819</u>
Balance at March 31, 2010	<u>\$ 999,886</u>

The Murphy Claims, New Brunswick, Canada

Balance at September 30, 2008	\$ -
Acquisition costs	16,250
Capitalized costs	<u>1,050</u>
Balance at September 30, 2009	\$ 17,300
Capitalized costs	<u>3,031</u>
Balance at March 31, 2010	<u>\$ 20,331</u>

The Horseshoe Claims, British Columbia, Canada

Balance at September 30, 2009	\$ -
Acquisition costs	82,674
Capitalized costs	<u>7,940</u>
Balance at March 31, 2010	<u>\$ 90,614</u>

Total Interest in mineral properties, March 31, 2010 **\$ 1,558,831**

5. INTEREST IN MINERAL PROPERTIES (continued)

The San Ramon Claim Group, Silver Project, Mexico

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

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

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

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

The Elmtree Gold Property, New Brunswick, Canada

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

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

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

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

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

5. INTEREST IN MINERAL PROPERTIES (continued)

The Murphy Claims, New Brunswick, Canada

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

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

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

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

The Horseshoe Property, British Columbia, Canada

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

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

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

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

6. CAPITAL STOCK

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

Common shares

	Number #	Amount \$
Balance at September 30, 2008	26,684,521	6,828,196
Flow-through share tax effect	-	(375,000)
Shares issue on property acquisitions (Note 5)	<u>250,000</u>	<u>17,500</u>
Balance at September 30, 2009	26,934,521	6,470,696
Private placement ⁽ⁱ⁾	4,003,666	480,440
Private placement – warrant valuation	-	(139,340)
Shares issue costs	-	(16,040)
Private placement ⁽ⁱⁱ⁾	7,762,500	621,000
Shares issue costs	-	(71,113)
Shares issue on property acquisitions (Note 5)	<u>120,000</u>	<u>19,200</u>
Balance at March 31, 2010	<u>38,820,687</u>	<u>7,364,843</u>

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

(i) On March 29, 2010 the Company completed a non-brokered private placement of 7,762,500 common shares at \$0.08 per common share for gross proceeds of \$621,000. The broker was paid a cash commission of 6% of the amount of funds raised and were granted compensation shares equivalent to 6% of the number of units sold. The Company paid \$23,400 in cash fees to the finders incurred \$24,313 in legal fees and filing fees.

On April 1, 2010, the Company issued 292,500 compensation shares valued at \$0.08 per share. The amount is included in accounts payable and accrued liabilities at March 31, 2010.

Escrow Shares

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

Pursuant to an escrow agreement dated as of March 28, 2007 between the Company and Great Horn, 8,000,000 common shares issued to Great Horn in connection with the acquisition of an interest in mineral properties (Note 5) were deposited into escrow. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be released. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

As of March 31, 2010, 1,510,425 common shares are held in escrow.

7. WARRANTS

	Number #	Amount \$
Balance at September 30, 2009	4,480,528	591,353
Private placement ⁽ⁱ⁾	2,001,833	113,740
Brokers' warrants ⁽ⁱⁱ⁾	232,866	25,600
Warrant issue costs	-	(5,349)
Expiry of broker warrants ⁽ⁱⁱⁱ⁾	<u>(344,100)</u>	<u>(45,000)</u>
Balance at March 31, 2010	<u>6,371,127</u>	<u>680,344</u>

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

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

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

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

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

8. STOCK-BASED COMPENSATION

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

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

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

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

	March 31, 2010		September 30, 2009	
	Number of stock options #	Weighted average exercise price \$	Number of stock options #	Weighted average exercise price \$
Balance, beginning of period	2,350,000	0.17	1,205,000	0.28
Granted	-	-	1,500,000	0.10
Expired	-	-	(355,000)	0.28
Balance, end of period	<u>2,350,000</u>	<u>0.17</u>	<u>2,350,000</u>	<u>0.17</u>

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

As of March 31, 2010, the following stock options were outstanding:

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

9. CONTRIBUTED SURPLUS

	<u>2010</u>	<u>2009</u>
Balance at beginning of period	\$ 509,647	\$ 393,647
Expiry of broker warrants	45,000	42,000
Stock options granted (i)	<u>-</u>	<u>74,000</u>
Balance at end of period	<u>\$ 554,647</u>	<u>\$ 509,647</u>

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

10. RELATED PARTY TRANSACTIONS

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

The Company rents office space from a corporation controlled by a director of the Company. During the period, rent of approximately \$8,088 (March 31, 2009 - \$8,682) charged by this corporation was included in office and general expenses.

During the quarter ended March 31, 2010, the Company incurred consulting fees and management fees of approximately \$65,250 (March 31, 2009 - \$65,000) paid to certain directors and officers of the Company.

11. FINANCIAL INSTRUMENTS

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below.

(a) Capital Risk

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

(b) Credit Risk

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

(c) Liquidity Risk

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

11. FINANCIAL INSTRUMENTS (Continued)

(d) Market Risk

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

- (i) **Interest rate risk**
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.
- (ii) **Foreign currency risk**
The Company is primarily exposed to currency fluctuations related to the Canadian dollar on expenditures that are denominated in United States (US) dollars and Mexican Pesos. The Company does not actively manage this risk.
- (iii) **Price risk**
The Company is exposed to price risk with respect to commodity pricing.

(e) Sensitivity analysis

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

- The Company does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.
- A change in interest rates of 1% would have a corresponding change in net loss for the year of approximately \$1,000 based on the cash and cash equivalents balance at March 31, 2010.

(f) Fair values

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

As at March 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.

12. CAPITAL MANAGEMENT

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

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

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

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

There were no changes in the Company's approach to capital management during the period.

13. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$546,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately \$27,000 all of which are due within one year.

14. SUBSEQUENT EVENTS

Granduc Copper Mine ("Granduc Project")

On April 6, 2010, the Company has signed a binding letter of intent ("LOI") with Bell Copper Corporation ("Bell Copper") to acquire up to a 90% interest in the Granduc Project located near Stewart, British Columbia. The Company can earn an 80% undivided interest in the Granduc Project over a 6 year option period and will have the option to earn an additional 10% by providing the financing after feasibility to Bell Copper in order to put the Granduc Project into production.

The Company will commit to spending a total of \$25 million over 6 years (including \$2.5 million in Year 1) and commit to spending a minimum of \$2 million per year with the contingency of a one-time catch up year when the Company does not spend a minimum of \$2 million in the previous year. The Company will pay \$2.5 million to Bell Copper (of which \$500,000 will be spent in the first year on the Granduc Project to the credit of Bell Copper) and will pay 250,000 common share of the Company per year during the 6 year life of the Option. The Option is subject to a 60 day due diligence period commencing on April 1, 2010. The Company paid \$20,000 non-refundable payment to Bell Copper on the execution of the binding letter of intent.

The Granduc Property is subject to a 2% Net Smelter Royalty ("NSR"), payable to B2Gold Corp. The NSR can be purchase by the Company for \$500,000 for the first one percent (1%) and \$1 million for the remaining one percent (1%). The transaction is subject to regulatory approval.

14. SUBSEQUENT EVENTS (Continued)

Elmtree Gold Property

On April 23, 2010, the Company announced the filing of positive preliminary economic assessment ("PEA") on Sedar for the Elmtree Gold Property. Management commissioned the Micon PEA to determine baseline economics of the Elmtree project. As stated in Castle's news release on March 5, 2010, the PEA indicates a pre-tax IRR of 25% using \$900 Au/oz and a pre-tax IRR of 63% using \$1,100 Au/oz, based on open pit mining and toll-milling of 1.117 million tonnes with an average gold grade of 2.41 g/t Au, a stripping ratio of 6.3 (W/O), and assumes a 90% Au recovery and a 60% Ag recovery into a concentrate for sale to a nearby smelter.

Private Placement

On May 10, 2010, the Company announced a brokered private placement led by Byron Capital Markets with a syndicate that includes M Partners Inc. (the "Agents"), in which the Agents will raise up to \$9,000,000 on a best efforts basis (the "Financing"). Pursuant to the Financing the Company will offer for sale through the Agents up to 20 million units (the "Units") at a price of \$0.20 each, with each Unit consisting of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"), up to 8 million flow through shares at a price of \$0.25 each, and up to 10 million super flow through shares at a price of \$0.30 each. The super flow through shares will only be offered to eligible British Columbia investors. The Warrants will be exercisable at \$0.30 for 24 months from closing.