CASTLE RESOURCES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE PERIOD THREE AND SIX MONTHS ENDED MARCH 31, 2012

(Prepared by Management on May 23, 2012)

INTRODUCTION

The following discussion and analysis is a review of the operations, current financial position and outlook for Castle Resources Inc. (the "Company" or "Castle") and should be read in conjunction with the condensed interim consolidated financial statements for the period ended March 31, 2012 and related notes thereto. The discussion covers the period-end up to the date of the filing of this MD&A. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. Those condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standings ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Readers are encouraged to read the Company's public information filings on Sedar at www.sedar.com

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Accounting Standards Board of Canada ("AcSB") requires that Canadian publicly accountable enterprises with September 30, 2011 financial year-ends adopt IFRS effective October 1, 2011.

The Company's condensed interim consolidated financial statements for the period ending December 31, 2011 are the Company's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual consolidated financial statements to be presented in accordance with IFRS for the year ending September 30, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. For further information, please refer to the Company's condensed interim consolidated financial statements and notes for the three and six months ended March 31, 2012.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimate cost and availability of funding for the continued exploration of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievement of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

DESCRIPTION OF THE BUSINESS

Overview

Castle Resources Inc. is a Toronto based junior resource company focused on high-quality advanced exploration or development projects in British Columbia and New Brunswick, Canada. The Company's focus is on the Granduc Project. The San Ramon Claim Groups has been optioned to MAG Silver Corp. Management's goal is to seek additional opportunities to continue to add value for shareholders.

MINERAL EXPLORATION ACTIVITIES

Granduc Copper Mine ("Granduc Project"), British Columbia, Canada

On October 15, 2010, the Company acquired a 100% interest in the Granduc Claims ("The Granduc property"). 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 (issued in October 2010 with a value of $1,375,000) of the Company for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

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

The Granduc property is also subject to a 1.5% NSR in respect to the Teuton mineral claims and the Bell Mineral claims, payable to Teuton Resources Corporation ("Teuton"). The Company will also make annual payments of $25,000 and $25,000 worth of common shares (based on the average price of the shares over the previous 10 trading days prior to issuance) to Teuton, with respect to the amounts owed to Teuton, until the Teuton mineral claims cease or are put into commercial production. During the year, the Company paid $50,000 cash and 101,021 common shares.

In 2010, the Company successfully completed over 8,000 metres of diamond drilling on the Granduc.

On February 28, 2011, the company released results of the resource estimate prepared by SRK Consulting from Vancouver B.C. on the 2010 drilling as well as the historic drilling.

- Indicated resources are 3.75 million tonnes grading 1.59% Cu containing 131.4 million pounds of copper based on an 0.8% Cu cut-off grade
- Inferred resources are 15.8 million tonnes grading 1.36% containing 471.5 million pounds of copper based on an 0.8% Cu cut-off grade
- Exploration potential estimated to contain an additional 17 to 23 million tonnes grading between 1.3 to 1.6% Cu

On June 7, 2011, the Company launched a 30,000 m drilling program designed to expand the extents of the known mineralization. The Company completed just over 30,000 metres of drilling in 54 holes by early October, 2011.

MINERAL EXPLORATION ACTIVITIES (continued)

Highlights of the 2011 drilling results include:

Hole		Start (m)	End (m)	Width (m)	% Cu	Au (g/t)	Ag (g/t)	%Fe
GD11-16		682	690	**8**	**3.17**	0.37	7.5	**11.98**
	inc	686	690	**4**	**5.4**	0.65	13	**16.4**
GD11-21		351	373	**22**	**1.38**	0.17	9.78	**18.28**
	inc	363	373	**10**	**2.07**	0.23	14.2	**16.53**
GD11-25		412	430	**18**	**1.9**	0.26	19.28	**11.74**
GD11-33		345	360	**15**	**1.91**	0.23	21.15	**11.58**
	inc	355	360	**5**	**2.42**	0.22	24.66	**10.32**
GD11-31		359.95	371.92	**11.97**	**1.82**	0.18	13.44	**20.93**
	inc.	365	370.9	**5.9**	**2.85**	0.15	13.29	**16.85**
GD11-39		416	434	**18**	**1.58**	0.2	12.97	**25.97**
GD11-36		142	148	**6**	**0.64**	0.08	2.7	**11.91**
	and	152	162	**10**	**0.76**	0.1	3.89	**14**
	and	180	189	**9**	**0.85**	0.1	3.7	**7.92**
	and	241.68	261	**19.32**	**2.73**	0.19	8.53	**15.71**
	inc.	241.68	246	**4.32**	**3.38**	0.26	12.35	**14.99**
	inc.	248	253	**5**	**3.47**	0.23	10.84	**18.47**
	and	323	341	**18**	**1.4**	0.15	12.05	**29.61**
	inc.	324	332	**8**	**1.83**	0.19	18.88	**28**
	and	352	366	**14**	**0.84**	0.13	8.6	**33.29**
	inc.	357	362	**5**	**1.15**	0.16	10.34	**39.24**
	and	371	386.28	**15.28**	**1.61**	0.19	17.57	**9.45**

On February 21, 2012, the company released results of an updated resource estimate prepared by SRK Consulting from Vancouver B.C. including the 2011 drilling

- Indicated resources are 10.4 million tonnes grading 1.25% Cu containing 286 million pounds of copper, 47,000 ounces of gold and 3.5 million ounces of silver (C$40 NSR cut-off)
- Inferred resources are 36.6 million tonnes grading 1.26% containing 1.013 billion pounds of copper 155,000 ounces of gold and 11.4 million ounces of silver (C$40 NSR cut-off)
- Exploration potential estimated to contain an additional 15 to 25 million tonnes grading between 1.2 and 1.5% Copper (C$40 NSR cut-off)

Castle will be undertaking a preliminary economic assessment (PEA) to be completed in September 2012.

On May 18, 2012, Castle launched a 30,000 meter drill program with an initial focus on the South Zone. 2 drills were mobilized and the Leduc Exploration camp was made operational.

In addition to exploration work, the Company has begun preliminary environmental monitoring (water quality sampling, wild life and fish habitat evaluation) towards initiating an application for Environmental Assessment.

MINERAL EXPLORATION ACTIVITIES (continued)

The Elmtree Gold Project, New Brunswick, Canada

On June 1, 2009, the Company entered into an option agreement with Stratabound Mineral Corp. to acquire up to 70% interest in Stratabound's 100% owned New Brunswick based Elmtree Gold Property ("Elmtree"). The Elmtree Property ("the Property") consisted of 85 claims (1,375 hectares, 3,400 acres) and is situated near the port city of Bathurst, New Brunswick. The Property contains at least three gold-bearing zones; the higher grade West Gabbro Zone (WGZ), original Discovery Zone (DZ) and the larger tonnage, lower grade South Gold Zone (SGZ). A portion of DZ contains significant stringer mineralization with appreciable zinc-lead-antimony-gold-silver-indium values.

In late November2009, Castle commissioned Micon International Consultants to perform a Preliminary Economic Assessment (PEA) on the possibility of extracting the high grade gold portion of the WGZ.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 into a concentrate for sale to a nearby smelter.

In June 2010, the Company commissioned Micon International to initiate a feasibility study on the WGZ and Stantec Consulting to undertake an environmental review towards the permitting process towards mining the WGZ. As of August 8, 2011, the feasibility study is still ongoing but the comprehensive environmental assessment has been put on hold until the feasibility study is completed. Due to unforeseen requirements of the Federal government for additional environmental studies, the environmental assessment has been postponed until the full impact of such studies is understood and the feasibility study is completed. The feasibility study was completed in late November and was delivered to Castle for review.

In October 2011, the ground staked mining claims were converted to cell claims as per the Government of New Brunswick's initiative to convert claim staking from physical ground staking to electronic map staking. At the same time, the 3 separate blocks were converted into 1 block with a common anniversary date of December 18. The new claim block number is 3848 and all claims are in good standings until December 18, 2012.

The Company have successfully completed the conditions to satisfy Option one of the agreement with Stratabound and thus acquired a 60% undivided interest in Elmtree. The Company has notified Stratabound of this in Q2 of 2012 and will enter into option agreement negotiation as soon as possible. As of March 22, 2012 the Elmtree property remains in good standings.

Horseshoe Property, British Columbia, Canada

On November 2, 2009, Castle entered into an agreement to acquire a 100% interest in the Horseshoe Claim Group southeast of Stewart, northwest British Columbia, Canada.

MINERAL EXPLORATION ACTIVITIES (continued)

Horseshoe Property, British Columbia, Canada (continued)

From August 28 to September 30, 2011, a 1281 metre -7 hole diamond drilling program was conducted on the Property. A total of 811 samples were collected from the 7 drill holes. Drilling was focused on the High-Grade showing and the Fraser/North Fork polymetallic vein showing.

The diamond drilling program intersected narrow anomalous gold bearing quartz veins in 3 diamond drill holes in the High-Grade vein area, which confirms the presence of gold bearing quartz veins in the area. However, the results were not indicative of the same values collected on surface and within the Middle zone adit by Geoquest, 2006 as well as collected by the Company in October 2009.

Diamond drilling in the polymetallic vein area intersected narrow polymetallic veins with anomalous Ag, Pb and Zn, but drilling failed to intersect the same width of vein and level of results as found on surface by the Company in October 2009.

While anomalous gold was found through diamond drilling on the High-Grade vein showing that can be correlated to anomalous gold surface sample locations, it is evident from the results that the occurrence of gold in this area is spotty and would require significant detailed work in order to advance the property. The property was returned to the original vendors in December, 2011 and Castle has no further interest in the property.

The San Ramon Claim Group, **Zacatecas, Mexico**

Overview
In 2006, Castle acquired the San Ramon project within Mexico's renowned Zacatecas Silver District. The project is composed of eight concessions totaling 312.2 hectares, approximately five kilometers northeast of the city of Zacatecas. The property is adjacent to Capstone Mining Corporation's recently commissioned Cozamin Mine.

The principal mine workings within the property are located in two main zones in its northern portion, San Ramon and Los Gatos, which cover approximately 300 meters of the La Platosa and Vetadel Alto veins. The San Ramon mine workings include the San Ramon and Azul shafts, each approximately 95 meters deep with four subsurface levels. Historical reports indicate that approximately 20,000 tons of ore grading 1.0 to 2.0 grams per ton (g/t) gold and 400 to 600 g/t of silver were extracted at San Ramon. The Azul shaft was refurbished in 2003 and was used to dewater the mine workings for mapping and sampling purposes.

Historical resource estimates credit the property with 640,000 tons of oxide ore grading 0.5 g/t gold and 246 g/t silver along with 1.2-million tons of sulphide ore grading 1.3 g/t gold and 274 g/t silver. These estimates do not comply with National Instrument 43-101.

Castle began exploration at San Ramon in May 2007, following recommendations detailed in the October 10, 2006 property of merit technical report prepared by BehreDolbear in accordance with NI 43-101. It was designed to verify and expand the historical resource estimates and includes plans for surface mapping, sampling, and drilling programs.

MINERAL EXPLORATION ACTIVITIES (continued)

Exploration Program

In early September 2008, a detailed mapping and sampling program was undertaken on the Evelin claims transecting the vein/breccia zones that returned anomalous results from an earlier prospecting program. Exploration activity was halted on the San Ramon property in January, 2009.

Option to MAG Silver Corp ("MAG Silver")

On July 15, 2009, the Company optioned 100% of the San Ramon claim group to MAG Silver. To earn their interest in the San Ramon property, MAG Silver has committed to exploration expenditures of 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 for total of US$3,250,000. Following commercial production, Castle will retain a 1.5% NSR in the project. In addition, MAG Silver has agreed to the following payment schedule; US$75,000 upon signing of the option agreement and US$750,000 by the fifth anniversary of the agreement. As of March 22, 2012, MAG Silver continues to option the San Ramon property and conduct exploration work.

INTEREST IN MINERAL PROPERTIES

During the six months period, the Company capitalized an additional $6,334,596 in interest in mineral properties for an aggregated balance of $30,703,245. The capitalized cost for each property is detailed in the following table.

The Granduc Project, British Columbia, Canada

Acquisition costs	$ 6,055,478
Exploration Expenditure	
Assaying	430,807
Drilling	6,779,146
Equipment and rental	842,620
Field labour	1,177,399
Fuel and transportation	3,944,965
General expense	271,750
Laboratory	61,755
Mapping	8,875
Professional and consulting fees	8,025,985
Site support and supplies	3,459,669
Travel and accommodations	437,732
Utilities	50,848
Less: refundable exploration tax credit	(3,805,622)
Balance at March 31, 2012	$27,741,407

The Elmtree Gold Project, New Brunswick, Canada

Acquisition Costs	$ 215,945
Exploration Expenditure	
Assaying	120,542
Drilling	741,836
Field labour	91,831
Fuel and transportation	29,820
General expense	76,092
Mining duties, permits, fees and taxes	12,380
Professional and consulting fees	1,090,348
Site support and supplies	80,317
Travel and accommodations	53,720
Balance at March 31, 2012	$ 2,512,831

INTEREST IN MINERAL PROPERTIES (continued)

The Horseshoe Property, British Columbia, Canada

Acquisition costs	$ 216,674
Exploration Expenditure	
Assaying	473
Drilling	106,140
Equipment and rental	20,313
General expense	18
Mining duties, permits, fees	37,078
Professional and consulting fees	79,711
Site support and supplies	11,305
Travel and accommodations	134,749
Write-down of property	(606,461)
Balance at March 31, 2012	$ -

The San Ramon Claim Group, Silver Project, Mexico	$ 449,007
Total interest in mineral properties	**$30,703,245**

RESULTS OF OPERATIONS AND CASH FLOWS

Revenue

The Company is in the development stage and therefore did not have revenues from operations. Interest income for the three months period ended March 31, 2012 was $179 (March 31, 2011 - $25,979).

Year to date interest revenue was $10,785, reflecting a decrease of $27,792 from the same period in 2011.

Net loss and comprehensive loss

The Company recorded a loss and comprehensive loss for the three months period ended March 31, 2012 was $392,843 (March 31, 2011 - $2,204,876).

Year to date loss and comprehensive loss was $534,224, reflecting a decrease of $3,293,381 from the same period in 2011. The Company wrote down $606,461 Horseshoe property. This is offset by $761,904 Flow-through share premium on the issuance of 9,523,800 flow-through shares on October 19, 2011.

Expenses

The Company recorded $447,273 in total expenses for the three months period ended March 31, 2012 as compared to $2,230,855 in the comparative period. The Company recorded $1,697,200 stock-based compensation in 2011 as compared to $Nil in the current period.

Year to date expenses was $700,452, reflecting a decrease of $3,281,577 from the same period in 2011.This is mainly due to share-based compensation was $3,215,300 in 2011while no share-based compensation incurred in 2012 and the consulting and management fees was reduced to $227,458 in 2012 due to the allocation of partial management fees directly related to the property.

Cash Flows

Operating Activities

Operating activities used $1,385,589 of cash flow for the three months ended March 31, 2012 (March 31, 2011 - $535,093).

Year to date cash used in operating activities was $3,218,094, reflecting an increase of 2,367,643 from the same period in 2011.

RESULTS OF OPERATIONS AND CASH FLOWS (continued)

Investing Activities

Cash used in investing activities of $1,557,426 for the three months ended March 31, 2012 (March 31, 2011 - $751,384).

Year to date cash used in investing activities was $6,600,836, reflecting an increase of 627,851 for the same period in 2011. This is mainly due to the cash used in exploration and evaluation assets were $6,600,836.

Financing Activities

Financing activities generated $11,011,530 of cash inflow for the three months ended March 31, 2012 (March 31, 2011 - $11,971,124).

Year to date cash generated from financing activities was $16,666,109, reflecting a decrease of $4,723,331 for the same period in 2011.

SELECTED ANNUAL AND QUARTELY FINANCIAL INFORMATION

SUMMARY OF QUARTERLY RESULTS

	IFRS			
Quarter ended	**March 31, 2012 $**	**December 31, 2011 $**	**September 30, 2011 $**	**June 30, 2011 $**
Net loss and comprehensive loss for the period	392,843	141,380	188,978	244,996
Basic and diluted loss per share	0.00	0.00	0.00	0.00
Expenses	447,273	253,178	218,512	295,672
Exploration and evaluation assets	30,703,245	29,124,873	24,368,649	14,955,265
Working capital	11,338,673	2,811,592	2,428,085	12,055,027
Share-based compensation	-	-	58,705	-
Interest income	179	10,606	29,535	50,675

	IFRS			Canadian GAAP
Quarter ended	**March 31, 2011 $**	**December 31, 2010 $**	**September 30, 2010 $**	**June 30, 2010 $**
Net loss and comprehensive loss for the period	2,204,876	1,402,729	367,989	481,477
Basic and diluted loss per share	0.03	0.02	0.01	0.01
Expenses	2,230,855	1,735,327	424,658	481,477
Exploration and evaluation assets	11,748,623	11,158,361	6,436,981	1,722,823
Write-down of exploration and evaluation assets	-	-	20,331	-
Working capital (deficiency)	15,323,777	4,607,523	(1,517,409)	84,704
Interest income	1,697,200	12,598	-	-
Share-based compensation	25,979	1,518,100	173,000	272,800

Note: Net loss per share on a fully diluted basis is the same as net loss per share on an undiluted basis, as all factors which were considered in the calculation are anti-dilutive.

LIQUIDITY

At March 31, 2012, the Company had cash and cash equivalents of $9,695,357 and working capital of $11,338,673. Included in amounts receivable are $3,425,522 BC refundable tax credits and approximately $184,916 GST/HST receivable. The Company received the GST/HST refund subsequent to period end. The Company anticipate the receiving of the BC tax credit in the third quarter of 2012.

FINANCIAL MEASURES

The Company uses the following key financial measures to assess its financial conditions and liquidity.

	March 31, 2012	**September 30, 2011**
Current Ratio	6.19	1.45
Working Capital	11,338,673	2,428,085
Cash and cash equivalents	9,695,357	2,848,178

CAPITAL RESOURCES

The following is a summary of the Company's outstanding share, warrant and stock option data as of March 31, 2012 and May 23, 2012.

Common shares

At March 31, 2012, the Company had issued and outstanding 145,277,401 common shares. At May 23, 2012, the Company common shares are unchanged.

Stock options

At March 31, 2012, a total of 9,360,000 stock options are issued and outstanding with expiry dates ranging from June 12, 2012 through to August 2, 2016. All stock options entitle the holder to purchase common shares of the Company. At May 23, 2012, the Company stock options outstanding are unchanged.

Warrants

At March 31, 2012, a total of 23,769,143 warrants and brokers' warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry dates ranging from October 7, 2012 through to July 14, 2015. At May 23, 2012, the Company warrants outstanding are unchanged.

OUTLOOK AND CAPITAL REQUIREMENTS

Castle expects that the cash will be sufficient to pay for the continued exploration and overhead expense for the next 12 months. Depending upon future events, the rate of expenditures and other general and administrative costs could increase or decrease.

RELATED PARTIES 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 six months ended March 31, 2012 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

	Six months ended March 31, 2012	Year ended September 30, 2011
Exploration expenditures	$ 337,625	$ 743,428
Consulting fees	416,625	206,425
Share-based payments	-	3,011,700
Directors' fees	22,871	78,168
	$ 777,121	$ 4,039,721

The Company rents office space from a corporation controlled by a director of the Company. During the six months ended March 31, 2012, rent of approximately $40,200 (March 31, 2011 – $28,838) charged by this corporation was included in office and general expenses.

TRENDS

Mineral exploration is a speculative venture. There is no certainty that the money spent on exploration and development of mineral projects will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be related to the success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

The mineral industry is intensely competitive in all its phases. The Company competes with many other mineral exploration companies who have greater financial resources and experience. The market price of precious metals and other minerals is volatile and cannot be controlled.

SUBSEQENT EVENTS

On April 9, 2012, the Company entered into a letter of intent (“LOI”) to sell 60% interest in the Elmtree gold property to CNRP Mining Inc. In consideration, the Company will receive:

(i) Cash payment of $500,000 over a 12 month period
(ii) Share capital representing 33.43% of Gorilla Resources Corp ("Gorilla") following a reverse takeover ("RTO"), describe below
(iii) A 3% NSR interest of the Elmtree Deposit.

Simultaneous with the transactions contemplated by the Definitive Agreement and as set out in the LOI, CNRP has agreed to be acquired by Gorilla in a RTO, through the issuance by Gorilla of 38,800,000 common shares. At closing of the RTO, the CNRP shares that Castle will receive, will result in Castle holding 18,000,000 shares of Gorilla valued at $4.5 million representing 33.43% of the share capital of Gorilla following completion of the RTO closing. Castle is also provided with the ability to nominate one director to the board of the newly formed company public junior resource company.

The Company's obligations under the LOI are subject to, among other things, completion by Castle of satisfactory due diligence on CNRP and the properties which it holds or which it will hold upon completion of the RTO, all required third party consents and receipt of all required regulatory approvals.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Transition to International Financial Reporting Standards

As stated in Note 19 of the condensed interim consolidated financial statements, these are the Company’s first condensed interim consolidated financial statements for the period covered by the first annual consolidated financial statements to be prepared in accordance with IFRS.

The accounting policies in Note 5 have been applied as follows:

- in preparing the condensed interim consolidated financial statements for the three months ended December 31, 2011;
- the comparative information for the three months ended December 31, 2010;
- the statement of financial position as at September 30, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, October 1, 2010.

First-time adoption of International Financial Reporting Standards

In preparing these condensed interim consolidated financial statements, the Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards, which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The following are the optional exemptions available under IFRS 1 that the Company has elected to apply.

Recent Accounting Pronouncements

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

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 will full retrospective application. Early adoption is permitted.

IFRS 11 Joint Arrangements
IFRS 11 requires a venturer 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 assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by venturers. The Company has yet to assess the full impact of IFRS 11.

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 disclosures. The Company has yet to assess the full impact of IFRS 13.

Reconciliations with prior C-GAAP disclosure

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior 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 have been presented. In preparing the condensed interim financial statements, the Company reflected the result of transition in the following tables:

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	(i)	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		8,492,269	(67,500)	8,424,769
Contributed surplus		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

Reconciliation of statement of financial position as of March 31, 2011

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		14,667,487	-	14,667,487
Amounts receivable		503,027	-	503,027
Prepaid expenses		576,263		576,263
		15,746,777	-	15,746,777
Long-term				
Prepaid expenses		114,975	-	114,975
Long-term receivable		92,205	-	92,205
Equipment		20,563	-	20,563
Exploration and evaluation assets	(i)	11,897,793	(149,170)	11,748,623
		27,872,313	(149,170)	27,723,143
LIABILITIES				
Current				
Accounts payable and accrued liabilities		423,000	-	423,000
Long-term				
Loan payable		1,933,859	-	1,933,859
		2,356,859	-	2,356,859
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	28,721,928	(287,500)	28,434,428
Contributed surplus	(iii)	4,718,300	(677,289)	4,041,011
Warrants		3,366,910	-	3,366,910
Deficit		(11,291,684)	815,619	(10,476,065)
		25,515,454	(149,170)	25,366,284
		27,872,313	(149,170)	27,723,143

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
Deferred income taxes		-	-	-
		7,876,505	-	7,876,505
Long-term				
Prepaid expenses		430,331	-	430,331
Deferred transaction costs		-	-	-
Long-term receivable		87,716		87,716
Equipment		17,992		17,992
Exploration and evaluation assets	(i)	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
		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		28,601,484	(287,500)	28,313,984
Contributed surplus		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

Reconciliation of statement of comprehensive loss for the three months ended March 31, 2011

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Expenses			
Stock-based compensation	1,697,200		1,697,200
Professional fees	38,990	-	38,990
Management and consulting fees	343,251	-	343,251
Transfer agent and listing fee	21,195	-	21,195
Office and general	62,216	-	62,216
Interest and financing fees	67,058	-	67,058
Depreciation costs	945	-	945
	2,230,855	-	2,230,855
Loss before the undernoted	(2,230,855)	-	(2,230,855)
Interest income	25,979	-	25,979
Net loss and comprehensive loss for the period	(2,204,876)	-	(2,204,876)
Basic and diluted loss per share	(0.03)	-	(0.03)
Weighted average number of shares outstanding – basic and diluted	85,633,417	-	85,633,417

Reconciliation of statement of comprehensive loss for the six months ended March 31, 2011

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Expenses			
Stock-based compensation	3,215,300		3,215,300
Professional fees	53,456	-	53,456
Management and consulting fees	424,266	-	424,266
Transfer agent and listing fee	31,242	-	31,242
Office and general	106,077	-	106,077
Interest and financing fees	150,278	-	150,278
Depreciation costs	1,410	-	1,410
	3,982,029	-	3,982,029
Loss before the undernoted	(3,982,029)	-	(3,982,029)
Gain on settlement of lawsuit	15,847		15,847
Interest income	38,577	-	38,577
Net loss and comprehensive loss before income tax	(3,927,605)	-	(3,927,605)
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	(3,827,605)	220,000	(3,607,605)
Basic and diluted loss per share	(0.05)	-	(0.05)
Weighted average number of shares outstanding – basic and diluted	81,621,495	-	81,621,495

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 tax		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

USE OF FINANCIAL INSTRUMENTS

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. There are no off-balance sheet arrangements. The principal financial instruments affecting the Company’s financial condition and results of operations is currently its cash and short-term money market investments.

FLOW-THROUGH SHARE SPENDING COMMITMENT

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 March 31, 2012, the Company has met this spending requirement.

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 March 2012, the Company raised $6,636,715 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2013.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.

Capital Investment

The ability of the Company to continue exploration and development of its property interests will be dependent upon its ability to raise significant additional financing hereafter. There is no assurance that adequate financing will be available to the Company or that the terms of such financing will be favorable. Should the Company not be able to obtain such financing, its properties may be lost entirely.

Government Regulations

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labor standards. For the Company to carry out mining activities, exploitation licenses must be obtained and kept current. There is no guarantee that the Company's exploitation licenses would be extended or that new exploitation licenses would be granted. In addition, such exploitation licenses could be changed and there can be no assurances that any application to renew any existing licenses will be approved. The Company may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Company will also have to obtain and comply with permits and licenses which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Company will be able to comply with any such conditions.

RISKS AND UNCERTAINTIES (continued)

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the control of the Company such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing companies, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with minerals, and increased production due to improved mining and production methods. The metals industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of metals are discovered, a market will exist for the profitable sale of such metals. Commercial viability of precious and base metals and other mineral deposits may be affected by other factors that are beyond the Company's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital.

Development Stage Corporation & Exploration Risks

The Company is engaged in the business of exploration and development for precious and base metals in Canada. The properties of the Company have no established reserves. There is no assurance that any of the properties can be mined profitably. Accordingly, it is not assured that the Company will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Company will be dependent on developing and commercially mining an economic deposit of minerals, which itself is subject to numerous risk factors. Exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time of which even a combination of careful valuation, experience and knowledge of management may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Substantial expenditures would be required to establish reserves sufficient to commercially mine mineral deposits on the Company's properties and to construct complete and install mining and processing facilities in those properties that are actually mined and developed.

Foreign Operations

Some of the Company's property interests is located in Mexico, and is subject to that jurisdiction's laws and regulations. The Company believes the present attitude of Mexico to foreign investment and mining to be favorable but investors should assess the political risks of investing in a foreign country. Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Company.

Environmental Protection

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety which may adversely affect the Company or require it to expend significant funds.

RISKS AND UNCERTAINTIES (continued)

Mining Risks and Insurance

The Company is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Company may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator of its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and would have a material adverse affect on the financial position of the Company.

Insurance Policy

One of the Company’s property interest is located in British Columbia. The Company believes they carry adequate insurance prescribed by the British Columbia government.

No History of Profitability

The Company is a development stage company with no history of profitability. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business plan.

Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and officers of other companies involved in gold and precious metal or other natural resource exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. In addition, such directors declare, and refrain from voting on any matters in which such directors may have a conflict of interest.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the year covered by this MD&A, management has concluded its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company’s internal control over financial reporting that occurred during the most recent period ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the audited consolidated financial statements.

Additional Information

Additional information relating to the Company can also be found on SEDAR at www.sedar.com.