CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

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INDEX	**PAGE**
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations, Comprehensive Loss and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 21

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Castle Resources Inc.

We have audited the consolidated balance sheets of Castle Resources Inc. as at September 30, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 11, 2009

CASTLE RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
As at September 30,

	2009	2008
ASSETS		
Current		
Cash and cash equivalents	$ 125,202	$ 1,402,460
Amounts receivable (Note 3)	127,121	130,088
Prepaid expenses	18,320	13,539
Future income taxes (Note 14(b))	-	375,000
	270,643	1,921,087
Long-term		
Equipment (Note 5)	6,304	8,434
Interest in mineral properties (Notes 6 and 11)	1,100,367	4,094,337
	$ 1,377,314	$ 6,023,858
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 186,353	$ 103,119
Long-term		
Future income taxes (Note 14(b))	-	81,000
	186,353	184,119
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	6,470,696	6,828,196
Contributed surplus (Note 10)	509,647	393,647
Warrants (Note 8)	591,353	361,353
Deficit	(6,380,735)	(1,743,457)
	1,190,961	5,839,739
	$ 1,377,314	$ 6,023,858

COMMITMENTS AND CONTINGENCIES (Notes 1, 6, 7 and 16)
SUBSEQUENT EVENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
For the years ended September 30,

	2009	2008
Expenses		
Consulting and management fees (Note 11)	$ 255,000	$ 212,630
Stock–based compensation (Note 9)	60,000	-
Professional fees	271,480	128,203
Transfer agent and listing fee	22,053	33,545
Office and general (Note 11)	162,525	106,109
Shareholder relations (Note 8)	275,525	-
Amortization	2,644	5,944
	1,049,227	486,431
Loss before the undernoted	(1,049,227)	(486,431)
Interest income	19,134	29,920
Write-down of interest in mineral properties (Notes 4 and 6)	(3,688,185)	(724,785)
Net loss and comprehensive loss before income taxes	(4,718,278)	(1,181,296)
Future income taxes (Note 14(a))	81,000	317,000
Net loss and comprehensive loss for the year	(4,637,278)	(864,296)
Deficit, beginning of year	(1,743,457)	(879,161)
Deficit, end of year	$ (6,380,735)	$ (1,743,457)
Basic and diluted loss per share	(0.17)	(0.04)
Weighted average common shares outstanding - basic and diluted	26,763,425	22,613,835

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended September 30,

	2009	2008
CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the year	$ (4,637,278)	$ (864,296)
Add (deduct) items not affecting cash:		
Amortization	2,644	5,944
Stock–based compensation	60,000	-
Warrant extension valuation	272,000	-
Future income taxes	(81,000)	(317,000)
Write-down of interest in mineral properties	3,688,185	724,785
Net change in non-cash working capital	30,280	(11,812)
	(665,169)	(462,379)
INVESTING ACTIVITIES:		
Interest in mineral properties	(611,576)	(1,352,912)
Purchase of equipment	(513)	(1,682)
Long-term prepaid expenses	-	-
	(612,089)	(1,354,594)
FINANCING ACTIVITIES:		
Shares issued through private placements	-	2,679,000
Share issue costs	-	(248,124)
	-	2,430,876
Change in cash and cash equivalents	(1,277,258)	613,903
Cash and cash equivalents at beginning of year	1,402,460	788,557
Cash and cash equivalents at end of year	$ 125,202	$ 1,402,460

Cash and cash equivalents consist of:

	2009	2008
Cash	$ 125,202	$ 98,360
Cash equivalents	-	1,304,100
Cash and cash equivalents	$ 125,202	$ 1,402,460

Supplemental information:

	2009	2008
Common shares issued for interest in mineral properties	$ 17,500	$ -
Change in accrued mineral property expenditures	$ (51,140)	$ 73,756
Stock-based compensation charged to mineral properties	$ 14,000	$ -

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of interest in mineral properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-down of the carrying values. The Company's mining assets that are located outside of Canada are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations and restrictions.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), consistently applied, except as described below.

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) 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. Payments received are offset against interest in mineral properties.

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 the 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.

c) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets at the following annual rates:

Office furniture and equipment	- 20%, declining balance basis
Computer equipment	- 30%, declining balance basis
Computer software	- 100%, declining balance basis

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 estimated fair value.

d) 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 and impairment of interest in mineral property carrying values. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, brokers' warrants 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.

e) Asset retirement obligations

The Company recognizes the fair value of a liability for asset retirement obligations 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 September 30, 2009 and 2008, management has determined that there are no asset retirement obligations.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) 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.

g) 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.

h) 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 8 and stock options in Note 9 have not been included in diluted loss per share as they are anti-dilutive.

i) 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.

j) 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.

k) 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.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Financial instruments and derivatives

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

m) New accounting policies

i) Goodwill and Intangible Assets

During 2009, the Company adopted CICA handbook section 3064, "Goodwill and Intangible Assets", which replaces CICA HB Section 3062, "Goodwill and Intangible Assets," and CICA HB Section 3450, "Research and Development Costs," and amendments to Accounting Guideline (AcG) 11, "Enterprises in the Development Stage," and EIC-27, "Revenues and Expenditures during the Pre-operating Period" and CICA HB Section 1000, "Financial Statement Concepts." The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company has evaluated the new section and determined that adoption of these new requirements had no impact on the Company's consolidated financial statements.

ii) Credit Risk and Fair Value of Financial Assets and Financial Liabilities

During 2009, the Company adopted EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that adoption of these new requirements will had no impact on the Company's consolidated financial statements.

iii) Mining Exploration Costs

Effective October 1, 2008 the Company adopted EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company has evaluated the new section and determined that adoption of these new requirements had no significant impact on the Company's consolidated financial statements.

Continued...

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Recent accounting pronouncements not yet adopted

i) International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2012. The Company has hired external consultants to assist in analyzing and addressing the differences between IFRS and Canadian GAAP that are relevant to the Company. An initial analysis that identifies the high level differences between Canadian GAAP and IFRS that may impact the Company was completed during 2009. The full impact of the required changes to accounting systems, processes and training and development required for key personnel will be assessed during 2010. The Company will continue their analysis of accounting and disclosure differences continue to work with external consultants to assess the impact on our internal controls, and work on a changeover plan as necessary. There will be changes in accounting policies related to the adoption of IFRS and these may materially impact the Company's financial statements in the future.

ii) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

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

3. AMOUNTS RECEIVABLE

Included in amounts receivable is $89,249 (2008 - $125,214) of IVA recoverable (Mexican value added tax) and $37,872 (2008 - $4,874) of GST recoverable.

4. LEGENDS OF COBALT CORPORATION ("LOC")

The Company signed a Letter of Intent dated December 4, 2007, and a share purchase agreement dated May 15, 2008 and amended July 29, 2008, with LOC, a private Ontario company, and its shareholders, to acquire all of the issued and outstanding shares of LOC for consideration totaling 15,000,000 common shares of the Company. LOC held certain property interests in Ontario, Canada. The Company incurred certain transaction costs, exploration expenditures and advanced certain funds to LOC during 2008. During 2009, the Company terminated this agreement. The write-down of interests in mineral properties for the year-ended September 30, 2008 includes $643,306 related to the termination of this agreement.

Continued...

5. EQUIPMENT

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**

September 30, 2008

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 4,765	$ 1,347	$ 3,418
Computer equipment	7,447	2,714	4,733
Computer software	6,614	6,331	283
	$ 18,826	$ 10,392	$ 8,434

Continued...

6. INTEREST IN MINERAL PROPERTIES

The San Ramon Claim Group, Silver Project, Mexico

Balance at September 30, 2007	$ 3,565,706
Capitalized costs	528,631
Balance at September 30, 2008	$ 4,094,337
Capitalized costs	126,454
Option payment received	(84,606)
Write-down	(3,688,185)
Balance at September 30, 2009	$ 448,000
The Elmtree Gold Project, New Brunswick, Canada	
Balance at September 30, 2008	$ -
Acquisition costs	115,945
Capitalized costs	519,122
Balance at September 30, 2009	$ 635,067
The Murphy Claims, New Brunswick, Canada	
Balance at September 30, 2008	$ -
Acquisition costs	16,250
Capitalized costs	1,050
Balance at September 30, 2009	$ 17,300
Val Uranium Project, British Columbia, Canada	
Balance at September 30, 2007	$ 53,906
Acquisition costs	27,574
Write-down	(81,480)
Balance at September 30, 2008 and 2009	$ -
Total Interest in mineral properties, September 30, 2009	**$ 1,100,367**

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.

Continued...

6. INTEREST IN MINERAL PROPERTIES (continued)

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%.

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.

Val Uranium Project, British Columbia, Canada

During 2007, the Company entered into a purchase agreement for certain claims located in southern British Columbia, Canada. During 2008, the Company wrote off the carrying value of this project.

Continued...

7. CAPITAL STOCK

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued

Common shares

	Number #	Amount $
Balance at September 30, 2007	18,361,665	4,700,673
Private placement [(i)]	3,357,141	1,175,000
Private placement – warrant valuation	-	(175,000)
Share issue costs [(ii)]	-	(50,250)
Shares issued for cash consideration	50,000	15,000
Private placement [(iii)]	4,915,715	1,489,000
Private placement – warrant valuation	-	(219,000)
Share issue costs [(iv)]	-	(107,227)
Balance at September 30, 2008	26,684,521	6,828,196
Flow-through share tax effect (i)(iii)(v)	-	(375,000)
Shares issue on property acquisitions (Note 6)	250,000	17,500
Balance at September 30, 2009	26,934,521	6,470,696

(i) On March 18, 2008, the Company completed a private placement of 3,357,141 flow-through units at $0.35 per unit for gross proceeds of $1,175,000. Each unit consists of one flow-through share and one-half of one common share purchase warrant (Note 8(i)). The broker was paid a cash commission of 6.5% of the amount of funds raised and granted brokers' warrants equivalent to 7% of the number of flow-through units sold to purchase units of the Company (Note 8 (ii)). The Company has indemnified the subscribers for any tax related amounts that become payable by the subscriber as a result of the Company not meeting its expenditure commitments.

(ii) Included in share issuance costs is $20,000 relating to the net future tax effect of the issuance of flow-through shares.

(iii) On April 2, 2008 the Company completed a brokered private placement of 4,630,000 units at $0.30 per unit and 285,715 flow-through units at $0.35 per flow-through unit for gross proceeds of $1,489,000. The broker was paid a cash commission of 7% of the amount of funds raised and granted brokers' warrants equivalent to 7% of the number of units sold. (Notes 8(iii) and 8(iv)).

(iv) Included in share issuance costs is $34,000 relating to the net future tax effect of the issuance of flow-through shares.

(v) In connection with the private placements described in Note 7(i) and (iii), the Company raised $1,275,000 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2009. The Company indemnified the subscribers of the flow-through shares for any tax related amounts that become payable by such subscribers if the Company does not meet its expenditure requirements. As at September 30, 2009, the Company has spent $1,005,000 towards this amount and will be required to spend $270,000 by December 31, 2009.

Continued...

7. CAPITAL STOCK (Continued)

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

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

As of September 30, 2009, 3,020,850 common shares are held in escrow.

8. WARRANTS

	Number	Amount
	#	$
Balance at September 30, 2007	-	-
Private placement (i)	1,678,570	133,000
Brokers' warrants (ii)	234,999	42,000
Warrant issue costs	-	(8,294)
Private placement (iii)	2,457,858	174,000
Brokers' warrants (iv)	344,100	45,000
Warrant issue costs	-	(24,353)
Balance at September 30, 2008	4,715,527	361,353
Expiry of broker warrants (ii)	(234,999)	(42,000)
Revaluation of warrants – extended term (v)	-	272,000
Balance at September 30, 2009	**4,480,528**	**591,353**

(i) In connection with the March 18, 2008 private placement (Note 7(i)), 1,678,570 warrants were issued at an exercise price of $0.60 until September 18, 2009. The estimated fair value of these warrants of $133,000 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.

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

(iii) In connection with the April 2, 2008 private placement (Note 7(iii)), 2,457,858 warrants were issued at an exercise price of $0.45 until October 2, 2009. The estimated fair value of these warrants of $174,000 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.

Continued...

8. WARRANTS (Continued)

(iv) 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.

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

As of September 30, 2009, the following warrants were outstanding:

Value $	Outstanding Warrants \#	Warrants Exercisable \#	Exercise Price $	Expiry Date
45,000	344,100	344,100	0.45	October 2, 2009 *
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
591,353	4,480,528	4,480,528	0.51	

* These broker warrants expired subsequent to September 30, 2009.

9. STOCK-BASED COMPENSATION

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

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9. STOCK-BASED COMPENSATION (Continued)

The following table reflects the continuity of stock options for 2009 and 2008:

	September 30, 2009		September 30, 2008	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of period	1,205,000	0.28	1,804,000	0.30
Granted	1,500,000	0.10	-	-
Expired	(355,000)	0.28	(599,000)	0.32
Balance, end of period	2,350,000	0.17	1,205,000	0.28

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 September 30, 2009, the following stock options were outstanding:

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

10. CONTRIBUTED SURPLUS

	2009	2008
Balance at beginning of year	$ 393,647	$ 393,647
Expiry of broker warrants	42,000	-
Stock options granted*	74,000	-
Balance at end of year	$ 509,647	$ 393,647

* $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.

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11. RELATED PARTY TRANSACTIONS

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

The Company rents office space from a corporation controlled by a director of the Company. During 2009, rent of approximately $34,700 (2008 - $40,500) charged by this corporation was included in office and general expenses. The Company is committed to minimum rental payments of approximately $33,000 due to this corporation, all within the 2010 fiscal year.

During the year ended September 30, 2009, the Company incurred consulting fees and management fees of approximately $262,500 (2008 - $139,500) paid to certain directors and officers of the Company. Of the $262,500, $255,000 (2008 - $139,500) is included in consulting and management fees and $7,500 (2008 - $Nil) is included in interest in mineral properties.

12. FINANCIAL INSTRUMENTS

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

(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.

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12. 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 September 30, 2009.

(f) Fair values

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

As at September 30, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term nature of the instruments.

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13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Company's capital consists of capital stock, warrants 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 2009 and 2008.

14. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 34% (2008 - 34%) were:

	2009	2008
Net loss for the year before income taxes	$ 4,718,278	$ 1,181,296
Expected recoverable income taxes at statutory rates	1,581,000	396,000
Increase (decrease) resulting from:		
Stock-based compensation	(111,000)	-
Share issue costs	-	29,000
Difference in tax rates	(197,000)	(115,000)
Differences in Mexican and Canadian tax rates	(37,000)	-
Other	(40,000)	(68,000)
Valuation allowance	(1,115,000)	75,000
Provision for income taxes	$ 81,000	$ 317,000

Continued...

14. INCOME TAXES (Continued)

b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities are as follows:

Future income tax assets (liabilities)	2009	2008
Non-capital losses	$ 367,000	$ 305,000
Resource properties	1,285,000	112,000
Share issue costs	61,000	91,000
Other	-	9,000
Valuation allowance	(1,713,000)	(223,000)
	$ -	$ 294,000

Net future income tax assets (liabilities) are recorded as follows:

	2009	2008
Current future income tax assets in Canada	$ -	$ 375,000
Long-term future income tax liability in Mexico	-	(81,000)
	$ -	$ 294,000

The Company has approximately $1,800,000 of Canadian exploration and development expenditures as at September 30, 2009 which under certain circumstances may be utilized to reduce the taxable income of future years. The Company also has tax pools in Mexico related to their property of approximately $4,000,000 that are not expected to expire.

The Company has approximately $1,264,000 of non-capital losses in Canada which under certain circumstances can be used to reduce the taxable income of future years. The Canadian losses expire in the following periods:

Year	Amount $
2012	3,000
2013	68,000
2026	53,000
2027	372,000
2028	527,000
2029	241,000
	1,264,000

15. SEGMENTED INFORMATION

The Company considers its business to consist of two geographical segments, Canada and Mexico. Geographic segmentation of the Company's assets is as follows: Canada $1,124,336 (2008 - $2,080,759) and Mexico $252,978 (2008 - $3,943,099). Equipment is located in Canada. Interest in mineral properties are located in Canada and Mexico (See Note 6). All significant administrative expenses included in the statement of operations were incurred in Canada. The write-down of interest in mineral properties related to a property located in Mexico in 2009 (2008 – Canada).

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16. COMMITMENTS AND CONTINGENCIES

Management Contracts

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 $117,500 all of which are due within one year.

Flow-through share spending commitment

The Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the requirements of the Income Tax Act (Canada). The Company is obligated to incur qualifying expenditures in Canada ("CEE") within 12 months from the effective date of renunciation (December 31, 2008) as defined in the Income Tax Act (Canada). At September 30, 2009, the Company's remaining commitment with respect to unspent resources expenditures under flow-though common share agreements were approximately $270,000. Since the money was not spent by December 31, 2008, the Company will institute the look-back rule, which will give it until December 31, 2009, to make the required expenditures.

17. SUBSEQUENT EVENTS

Private Placement

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 finders were 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.

Acquisition

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. Pursuant to the agreement, the Company will earn a 100% interest in the Property over a 3 year option period by spending an aggregate of $1,500,000 on exploration and drilling expenses. The Company will pay the vendor a total of $300,000 and will issue 360,000 common shares over the term of the option, subject to regulatory approval. Upon earning the 100% interest, the Company would pay a 2% NSR to the optionors.