CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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SEPTEMBER 30, 2011 AND 2010

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Castle Resources Inc.

We have audited the accompanying consolidated financial statements of Castle Resources Inc. and its subsidiary, which comprise the balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Castle Resources Inc. and its subsidiary as at September 30, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that the Company is in the development stage. The continuance of the Company is dependent upon additional financing and the generation of profitable operations. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants
TORONTO, Canada
January 19, 2012

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

	2011	2010
ASSETS		
Current		
Cash and cash equivalents	$ 2,848,178	$ 101,483
Amounts receivable (Note 3)	4,892,730	766,055
Prepaid expenses	135,597	15,904
Future income taxes (Note 15)	-	85,000
	7,876,505	968,442
Long-term		
Prepaid expenses (Note 5)	430,331	98,475
Deferred transaction costs	-	37,619
Long-term receivables	87,716	92,205
Equipment (Note 4)	17,992	7,538
Interest in mineral properties (Note 5)	24,517,819	6,436,981
	$ 32,930,363	$ 7,641,260
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 5,448,420	$ 2,385,851
Due to shareholder	-	100,000
	5,448,420	2,485,851
Long-term		
Loan payable (Note 6)	2,069,411	1,783,590
	7,517,831	4,269,441
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	28,601,484	8,493,576
Contributed surplus (Note 10)	4,788,281	1,503,000
Warrants (Note 8)	3,748,425	839,322
Deficit	(11,725,658)	(7,464,079)
	25,412,532	3,371,819
	$ 32,930,363	$ 7,641,260

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

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY" , Director

Signed "MIKE SYLVESTRE" , 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,

	2011	2010
Expenses		
Stock-based compensation (Note 9 and 10)	$ 3,274,005	$ 445,800
Professional fees	163,210	109,083
Consulting and management fees (Note 11)	469,219	360,479
Transfer agent and listing fees	42,217	30,731
Office and general (Note 11)	257,473	143,915
Interest and financing fees (Note 6)	286,058	47,790
Amortization	4,031	2,215
	4,496,213	1,140,013
Loss before the undernoted	(4,496,213)	(1,140,013)
Interest income	118,787	-
Gain on settlement of lawsuit	15,847	-
Write-down of interest in mineral properties	-	(20,331)
Net loss before income taxes	(4,361,579)	(1,160,344)
Future income taxes (Note 15)	100,000	77,000
Net loss and comprehensive loss for the year	(4,261,579)	(1,083,344)
Deficit, beginning of year	(7,464,079)	(6,380,735)
Deficit, end of year	$ (11,725,658)	$ (7,464,079)
Basic and diluted loss per share	$ (0.05)	$ (0.03)
Weighted average common shares outstanding - basic and diluted	90,088,539	36,573,089

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended September 30,

	2011	2010
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the year	$ (4,261,579)	$ (1,083,344)
Charges not affecting cash:		
Stock-based compensation	3,274,005	445,800
Amortization	4,031	2,215
Future income taxes recovery	(100,000)	(77,000)
Write-down of interest in mineral properties	-	20,331
Interest and financing fees	286,058	34,590
Net change in non-cash working capital	(1,379,006)	(448,513)
	(2,176,491)	(1,105,921)
INVESTING ACTIVITIES:		
Interest in mineral properties	(16,735,484)	(3,466,929)
Equipment acquisitions	(14,484)	(3,450)
	(16,749,968)	(3,470,379)
FINANCING ACTIVITIES:		
Shareholder loan	(100,000)	100,000
Loan payable	-	1,980,000
Deferred transaction costs	-	(37,619)
Broker warrants exercised	1,110	12,540
Warrants exercised	1,070,770	10,450
Stock options exercised	66,250	53,750
Private placements	22,321,750	2,621,940
Share issue costs	(1,686,726)	(188,480)
	21,673,154	4,552,581
CHANGE IN CASH AND CASH EQUIVALENTS:	2,746,695	(23,719)
Cash and cash equivalents, at beginning of year	101,483	125,202
Cash and cash equivalents, at end of year	$ 2,848,178	$ 101,483
Cash and cash equivalent are comprised of:		
Cash in bank	$ 844,615	$ 101,483
Cash equivalents	$ 2,003,563	$ -
Supplemental information:		
Common shares issued for interest in mineral property	$ 1,531,500	$ 69,200
Change in accrued mineral property expenditures	$ 3,186,643	$ 2,011,496
Warrant granted related to debt facility (Note 6)	$ -	$ 231,000
Broker warrants	$ 1,022,400	$ 49,600
Common shares issued for broker compensation	$ -	$ 55,575

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. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11, and is in the business of acquisition, exploration and development of mineral resource interests.

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

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

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

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

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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.

All material intercompany balances and transactions have been eliminated.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and investment-grade deposit certificates with original maturities of three months or less. Cash and cash equivalents are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

c) 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 from sale of the property. Management's assessment of a property's estimated current value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

d) 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 fair value.

e) 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' options, loan payable, long-term receivables, refundable exploration tax credits, 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.

f) 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 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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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, 2011 and 2010, management has determined that there are no material asset retirement obligations.

g) 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 enacted or 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.

h) 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.

i) 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. Outstanding warrants described in Note 8 and outstanding options in Note 9 have not been included in diluted loss per share as they are anti-dilutive.

j) Foreign currency translation

The consolidated financial statements have been presented in the Company's functional currency, the Canadian dollar. 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.

k) 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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

renunciation reduce capital stock. The Company indemnifies the subscribers of flow-through shares from certain tax related amounts that may become payable in connection with the flow-through shares. As at September 30, 2011, the Company has met its expenditure requirements.

l) Financial instruments

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 loss 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 loss.

m) Recent accounting pronouncements

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

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

3. AMOUNTS RECEIVABLE

	2011	2010
GST/HST recoverable	$ 1,466,530	$ 332,205
Refundable exploration tax credits	3,425,522	380,100
Other receivable	678	-
Exercise of stock options	-	53,750
Balance at end of year	$ 4,892,730	$ 766,055

4. EQUIPMENT

September 30, 2011

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

September 30, 2010

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 6,765	$ 2,778	$ 3,987
Computer equipment	8,897	5,346	3,551
Computer software	7,127	7,127	-
	$ 22,789	$ 15,251	$ 7,538

5. INTEREST IN MINERAL PROPERTIES

Granduc Claims, British Columbia, Canada	
Balance at September 30, 2009	$ -
Acquisition costs	2,598,000
Capitalized costs	1,916,929
Less: refundable exploration tax credits (Note 3)	(380,100)
Balance at September 30, 2010	$ 4,134,829
Acquisition costs	3,522,500
Capitalized costs	16,836,525
Less: refundable exploration tax credits (Note 3)	(3,425,522)
Balance at September 30, 2011	$ 21,068,332
The Elmtree Gold Project, New Brunswick, Canada	
Balance at September 30, 2009	$ 635,067
Acquisition costs	50,000
Capitalized costs	1,063,151
Balance at September 30, 2010	$ 1,748,218
Acquisition costs	50,000
Capitalized costs	670,609
Balance at September 30, 2011	$ 2,468,827
The Horseshoe Claims, British Columbia, Canada	
Balance at September 30, 2009	$ -
Acquisition costs	82,674
Capitalized costs	23,260
Balance at September 30, 2010	$ 105,934
Acquisition costs	134,000
Capitalized costs	291,719
Balance at September 30, 2011	$ 531,653
The San Ramon Claim Group, Silver Project, Mexico	
Balance at September 30, 2009	$ 448,000
Capitalized costs	-
Balance at September 30, 2010	$ 448,000
Capitalized costs	1,007
Balance at September 30, 2011	$ 449,007
Total interest in mineral properties, September 30, 2011	**$ 24,517,819**

5. INTEREST IN MINERAL PROPERTIES (continued)

The Granduc Project, British Columbia, Canada

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

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

- i) Pay a $20,000 non-refundable deposit to Bell Cooper prior to the signing of the agreement (paid);
- ii) Pay $2.5 million to Bell Copper (of which $500,000 will be reimbursed to the Company for exploration expenditures on the Granduc Mine, pursuant to the expenditure commitment in the first year) on or before the first anniversary date (paid);
- iii) Incur a minimum of $3 million of expenditures in the first year (of which $500,000 is paid from Bell Copper from the Company's option payment) (incurred) and a minimum of $2 million by the end of the second and third anniversaries of the agreement. A one-time catch up payment may be made if the Company does not spend the $2 million minimum in the previous year; and
- iv) Issue 250,000 shares to Bell Copper on the signing of the agreement (issued in 2010 with a value of $50,000) and an additional 250,000 shares on the first, second and third anniversary date of the agreement.

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

- i) All of the above obligations to earn a 51% interest have been made;
- ii) At any time within 15 days after earning the 51% interest, the Company must notify Bell Copper that it wishes to earn into the 80% interest;
- iii) Incur expenditures of not less than $18,000,000 on or before the sixth anniversary date of the agreement;
- iv) Issue 250,000 common shares on or before the fourth anniversary of the date of the agreement; and
- v) Issue 250,000 common shares on or before the fifth anniversary of the date of the agreement.

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

- i) The above obligations to earn the 80% interest have been met;
- ii) At any time within 15 days after earning the 80% interest, the Company must notify Bell Copper that it wishes to earn into the 90% interest; and
- iii) Provide within one year of completion of a feasibility study, the financing required to bring the property into commercial production.

On October 15, 2010, the Company acquired a 100% interest in the Granduc Claims ("the Granduc project"). The acquisition supersedes the option agreement dated July 16, 2010. Pursuant to the agreement, the Company paid Bell Copper an additional $2,000,000 and issued an additional 2,750,000 common shares of the Company (issued in October 2010 with a value of $1,375,000 based on the quoted market price of the Company's shares) for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

On August 16, 2011, the Company completed an acquisition of a mining claim located in the Skeena mining division in British Columbia. in connection with the development of the Granduc Project. In connection with this acquisition, the Company has paid cash consideration in the amount of $20,000, issued an aggregate of 94,118 common shares of the Company (valued at $80,000 based on the quoted market price of the Company's shares), and has granted a 2% NSR over the acquired claim. The common shares issued in connection with the acquisition will all be subject to a four month regulatory hold period commencing from the date of issue.

The Granduc project is subject to a 2% Net Smelter Royalty ("NSR") in respect of certain mineral claims. The NSR can be purchased for $500,000 for the first one percent (1%) and $1 million for the remaining one percent (1%).

The Granduc project is also subject to a 1.5% NSR in respect of certain mineral claims. The Company will also make annual payments of $25,000 and $25,000 worth of common shares (based on the average price of the shares over the previous 10 trading days prior to issuance) until the related mineral claims lapse or are put into

5. INTEREST IN MINERAL PROPERTIES (continued)

commercial production. During 2011, the Company paid $25,000 cash and 50,000 common shares.

Included in long term prepaid expenses is a $300,000 drilling deposit related to the Granduc project.

The Elmtree Gold Project, New Brunswick, Canada

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

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

(a) Payment of $100,000 in cash (paid) and issuance of 200,000 common shares (issued in 2009 with a value of $12,000, based on the quoted market value of the Company's shares) upon execution of the option agreement.
(b) Complete the following exploration expenditure requirements, which include an administration and management fee of 10% of amounts actually spent:
   i. a minimum of $750,000 on or prior to June 1, 2010 (completed);
   ii. an additional of at least $750,000, on or prior to June 1, 2011 (completed); and
   iii. $2,500,000, less the amounts spent as part of the expenditure requirements described in (i) and (ii) above on or prior to June 1, 2012 (completed).
(c) Make the following cash payments:
   i. $50,000 on or prior to June 1, 2010 (paid); and
   ii. an additional $50,000 on or prior to June 1, 2011 (paid).

At September 30, 2011, the Company believes that it has completed the First Option and therefore can earn a 60% interest in Stratabound's 100% owned Elmtree Gold Property.

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

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

The Horseshoe Claims, British Columbia, Canada

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

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

(a) Payment of $60,000 in cash (paid) and issuance 120,000 common shares (issued in 2010 with a value of $19,200, based on the quoted market value of the Company's shares) upon execution of the option agreement.
(b) Complete a minimum of $1,500,000 of exploration and drilling activities on or prior to October 22, 2012 ($38,260 spent as at June 30, 2011).
(c) Payment of $80,000 in cash (paid) and issuance 120,000 common shares (issued in October 2010 with a value of $54,000, based on the quoted market value of the Company's shares).
(d) Payment of $160,000 in cash and issuance 120,000 common shares on or prior to October 22, 2011.

The Horseshoe Claims are subject to a 2% net smelter royalty on all production of minerals, metals and precious or semi-precious stones, one half of which (i.e. 1% NSR) can be repurchased for $1,000,000.

5. INTEREST IN MINERAL PROPERTIES (continued)

Refer to Note 16 for discussion regarding write-down of The Horseshoe claims subsequent to September 30, 2011.

The San Ramon Claim Group, Silver Project, Mexico

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

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

On July 15, 2009, the Company entered into an agreement with MAG Silver Corp. ("MAG") whereby MAG may earn up to a 100% interest in the San Ramon Claim Group by making payments to the Company of US$75,000 ($84,606) upon signing (received) and US$750,000 after five years. MAG is also required to make exploration expenditures on the property totalling US$3,250,000, as follows: US$500,000 in the first year of the option, US$500,000 in the second year of the option, US$1,000,000 in the third year of the option and US$1,250,000 in the fourth year of the option. The Company would also retain a 1.5% net smelter royalty.

The Company completed an impairment assessment on the San Ramon Claim Group based on the agreement with MAG and wrote-down $3,688,185 relating to these claims at September 30, 2009.

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

6. LOAN PAYABLE

On July 14, 2010, the Company entered into a 5-year, non-revolving term loan facility in the principal amount of $2,200,000 with interest payable at the rate of 5% in the first 12 months and 9% in the following 48 months. The facility is repayable on July 14, 2015.

The facility is secured against all of the Company's assets. The facility was subject to a 10% discount such that it amounted to $220,000. As a result, total proceeds to the Company amounted to $1,980,000.

In connection with the financing, the Company issued 3,600,000 drawdown warrants and 300,000 standby warrants. The estimated fair value of the drawdown warrants of $216,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 168%, a risk-free interest rate of 2.56% and an expected life of 5 years. Each drawdown warrant is exercisable into one common share and one-half warrant at a price of $0.25 for a period of 5 years. The estimated fair value of the standby warrants of $15,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 185%, a risk-free interest rate of 1.56% and an expected life of 2 years. Each standby warrant is exercisable into one common share at a price of $0.20 for a period of 2 years. The 300,000 standby warrants were exercised during the year ended September 30, 2011.

The value of the warrants and the discount was recorded against the debenture to be accreted over the term of the debenture. During 2011, the Company recorded $286,058 (2010 $47,790) interest, accretion expense and finance fees in the consolidated statements of operations and deficit.

7. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	Number \#	Amount $
Balance at September 30, 2009	26,934,521	6,470,696
Private placement [i]	4,003,666	480,440
Private placement – warrant valuation [i]	-	(105,193)
Share issue costs [i]	-	(17,291)
Private placement – broker warrant valuation [i]	-	(14,528)
Private placement [ii]	7,762,500	621,000
Share issuance as share issue costs [ii]	292,500	55,575
Private placement – finder's shares valuation [ii]	-	(55,575)
Share issue costs [ii]	-	(49,263)
Shares issued on property acquisitions (Note 5)	370,000	69,200
Warrants and broker warrants exercise	104,500	17,131
Private placement [iii]	7,400,000	1,520,500
Private placement – warrant valuation [iii]	-	(520,989)Share
issue costs [iii]	-	(89,263)
Warrants and broker warrants exercised	52,250	10,450
Warrants and broker warrants exercised – value reallocation	-	1,828
Stock options exercised	225,000	53,750
Stock options exercised – value reallocation	-	43,800
Balance at September 30, 2010	47,144,937	8,492,268
Renunciation of flow-through	-	(85,000)
Private placement [v]	32,112,500	10,320,000
Private placement – warrant valuation [v]	-	(2,520,239)
Renunciation of flow-through	-	(109,000)
Share issue costs [v]	-	(1,084,972)
Shares issued on property acquisitions (Note 5)	2,870,000	1,429,000
Shares issued as advance royalty (Note 5)	50,000	22,500
Warrants and broker warrants exercised	4,120,899	1,060,257
Warrants and broker warrants exercised – value reallocation	-	258,682
Warrants and broker warrants exercised	62,083	11,625
Private placement [vi]	19,675,000	12,001,750
Share issue costs [vi]	-	(1,298,286)
Stock options exercised	45,000	12,500
Stock options exercised – value reallocation	-	10,400
Shares issued on property acquisitions (Note 5)	94,118	80,000
Balance at September 30, 2011	106,174,537	28,601,484

7. CAPITAL STOCK (continued)

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

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

Refer to Note 8(i) for additional details.

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

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

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

Refer to Note 8(iii) for additional details.

(iv) In connection with the private placement described in Note 7(iii) and 7(v), the Company raised a total of $706,500 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2011. The Company indemnified the subscribers of the flow-through shares for any tax related amounts that become payable by such subscribers if the Company does not meet its expenditure requirements. As at September 30, 2011, the Company has met this expenditure requirement.

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

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

7. CAPITAL STOCK (continued)

Refer to Note 8(iv) for additional details.

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

In connection with the private placement, the Company paid cash commissions of 6% of the gross proceeds raised and also issued compensation warrants equal to 6% of the total number of shares issued. Each compensation warrant entitles the holder to exercise at a price of $0.61 for one common share of the Company, until February 18, 2013. On closing, the Company paid an aggregate amount of $720,105 in cash commissions and issued an aggregate of 1,180,500 compensation warrants. The Company incurred $28,921 in legal fees.

Refer to Note 8(vii) for additional details.

8. WARRANTS

	Number #	Amount $
Balance at September 30, 2009	4,480,528	591,353
Private placement (i)	2,001,833	105,193
Warrants and broker warrants exercise (i)	(52,250)	(1,828)
Warrant issue costs (i)	-	(4,847)
Brokers' warrants (i)	232,866	18,600
Share issue costs – Brokers' warrants (i)	-	(4,072)
Brokers' warrants exercised (i)	(104,500)	(8,360)
Warrants issued from broker warrant exercise (i)	52,250	3,769
Expiry of broker warrants (ii)	(344,100)	(45,000)
Debt facility warrants (Note 6)	3,900,000	231,000
Private placement (iii)	6,725,000	520,989
Warrant issue costs(iii)	-	(50,815)
Warrants and broker warrants (iii)	389,100	31,000
Expiry of warrants	(4,136,428)	(546,353)
Balance at September 30, 2010	13,144,299	840,629
Private placement (iv)	15,506,250	2,520,239
Warrant issue costs (iv)	-	(354,485)
Warrants and broker warrants (iv)	2,247,875	562,000
Warrant exercise	(3,807,799)	(242,180)
Warrants and broker warrants exercised	(15,450)	(1,502)
Debt facility warrants exercise (Note 6)	(300,000)	(15,000)
Warrants and broker warrants (v)	1,180,500	460,400
Expiry of warrants (i)	(412,500)	(21,676)
Balance at September 30, 2011	27,543,175	3,748,425

8. WARRANTS (continued)

(i) In connection with the October 16, 2009 private placement (Note 7(i)), 2,001,833 warrants were issued at an exercise price of $0.20 until April 15, 2011. The fair value of these warrants of $105,193 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 164%, a risk-free interest rate of 1.6% and an expected life of 18 months. During the year, 1,537,083 of these warrants were exercised, the remaining 412,500 were expired.

The agent received 232,866 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.12. The finder's warrants are exercisable for 18 months. The estimated fair value of the finder's warrants of $18,600 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 164%, a risk-free interest rate of 1.6% and an expected life of 18 months. Each finder's warrant is exercisable into one unit at a price of $0.12 for a period of 18 months. On June 29, 2010, 104,500 finder's warrants were exercised. During the year, all of these warrants were exercised.

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

(iii) In connection with the July 19, 2010 private placement (Note 7(iii)), 6,050,000 warrants were issued with an exercise price of $0.30 until January 31, 2012. The fair value of these warrants of $447,120 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 172%, a risk-free interest rate of 1.55% and an expected life of 18 months. During the year, 1,925,000 of these warrants were exercised.

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

The agent received 389,100 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.20. The finder's warrants are exercisable for 18 months. The estimated fair value of the finder's warrants of $31,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 172%, a risk-free interest rate of 1.56% and an expected life of 18 months. Each unit is exercisable into one common share of the Company and one common share purchase warrant exercisable at a price of $0.20 for a period of 18 months. During the year, 11,100 finder's warrants and 5,550 warrants underlying the finder's warrants were exercised at a price of $0.20 and $0.30 respectively.

(iv) In connection with the October 7, 2010 private placement (Note 7(v), 15,506,250 warrants were issued with an exercise price of $0.50 until October 7, 2012. The fair value of these warrants of $2,520,239 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 170%, a risk-free interest rate of 1.33% and an expected life of 2 years. During the year, 175,000 of these warrants were exercised.

The agent received 2,247,875 finder's warrants which entitle the holder to purchase one unit of the Company at a price of $0.32. The finder's warrants are exercisable for 2 years. The estimated fair value of the finder's warrants of $562,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 170%, a risk-free interest rate of 1.33% and an expected life of 2 years. Each unit is exercisable into one common share of the Company and one half a common share purchase warrant exercisable at a price of $0.32 for a two year period.

8. WARRANTS (continued)

(v) In connection with the February 18, 2011 private placement (Note 7(vi)), the agent received 1,180,500 finder's warrants which entitle the holder to purchase one common share of the Company at a price of $0.61. The finder's warrants are exercisable for 2 years. The estimated fair value of the finder's warrants of $460,400 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 128%, a risk-free interest rate of 1.88% and an expected life of 2 years. As of September 30, 2011, the following warrants were outstanding:

Value $	Outstanding Warrants \#	Warrants Exercisable \#	Exercise Price $	Expiry Date
272,250	4,125,000	4,125,000	0.30	January 31, 2012
65,886	675,000	675,000	0.33	January 31, 2012
30,240	378,000(i)	378,000	0.20	January 31, 2012
773	5,550(ii)	5,550	0.20	January 31, 2012
2,179,478	15,331,250	15,331,250	0.50	October 7, 2012
404,600	2,247,875(iii)	2,247,875	0.32	October 7, 2012
129,900	1,180,500(iv)	1,180,500	0.61	February 18, 2013
216,000	3,600,000(v)	3,600,000	0.25	July 14, 2015
3,299,127	27,543,175	27,543,175		

(i) These are brokers' warrants issued in connection with July 19, 2010 private placement exercisable into units. Refer to Note 8(iii) for additional details.
(ii) These are warrants attached to brokers' warrants issued in connection with July 19, 2010 private placement exercisable into units. Refer to Note 8(iii) for additional details
(iii) These are broker's warrants issued in connection with October 7, 2010 private placement exercisable into unit. Refer to Note 8(vi) for additional details.
(iv) These are brokers' warrants issued in connection with February 18, 2011 private placement.
(v) These are drawdown warrants issued in connection with debt facility (Note 6).

9. STOCK-BASED COMPENSATION

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

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

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

9. STOCK-BASED COMPENSATION (continued)

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

	September 30, 2011		September 30, 2010	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of year	4,165,000	0.20	2,350,000	0.17
Granted	5,890,000	0.59	2,040,000	0.23
Exercised	(45,000)	0.28	(225,000)	0.24
Balance, end of year	10,010,000	0.43	4,165,000	0.20

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

On July 1, 2010, the Company granted 500,000 stock options to a director of the Company. The stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.20 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.19 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 130%; risk free interest rate of 2.37% and; expected life of five years.

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

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

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

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

9. STOCK-BASED COMPENSATION (continued)

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

As of September 30, 2011, the following stock options were outstanding:

Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
164,450	650,000	650,000	0.30	March 28, 2012
27,000	100,000	100,000	0.35	June 4, 2012
57,000	1,425,000	1,425,000	0.10	June 1, 2014
256,300	1,165,000	1,165,000	0.25	April 23, 2015
95,000	500,000	500,000	0.20	July 1, 2015
78,000	300,000	300,000	0.23	September 9, 2015
1,508,700	3,210,000	3,210,000	0.50	October 18, 2015
490,200	860,000	860,000	0.60	January 21, 2016
1,207,000	1,700,000	1,700,000	0.75	March 2, 2016
58,705	100,000	100,000	0.88	August 2, 2016
3,942,355	10,010,000	10,010,000		

10. CONTRIBUTED SURPLUS

	September 30, 2011	September 30, 2010
Balance at beginning of year	$ 1,503,000	$ 509,647
Expiry of broker warrants	-	45,000
Expiry of warrants	21,676	546,353
Exercise of stock options	(10,400)	(43,800)
Stock options granted	3,274,005	445,800
Balance at end of year	$ 4,788,281	$ 1,503,000

11. RELATED PARTY TRANSACTIONS

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

The Company rents office space from a corporation controlled by a director of the Company. During the year ended September 30, 2011, rent of approximately $68,438 (September 30, 2010 - $37,387) charged by this corporation was included in office and general expenses.

For the year ended September 30, 2011, the Company incurred consulting fees and management fees of approximately $763,000 (September 30, 2010 - $382,309) paid to certain directors and officers of the Company.

12. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below. There have been no significant changes in the risks, objectives, policies and procedures during 2011 and 2010, with exception to the additional capital obtained from due to shareholder and loan payable.

(a) Capital Risk

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

(b) Credit Risk

Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks, refundable exploration tax credits due from the British Columbia Government, sales taxes due from the Federal Government of Canada, and IVA recoverable from the Mexican government which are included in long-term receivables. The IVA recoverable amount has been subject to audit by the Mexican taxation authorities, who have initially denied the Company's request for refund. Management is currently appealing this decision and expects that the IVA recoverable from the Mexican government will be fully recoverable; however, the timing of recovery is uncertain.

(c) Liquidity Risk

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

(d) Market Risk

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

(i) Interest rate risk
The Company has cash balances and loan payable subject to fluctuations in interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company also monitors the loan payable interest rate on an ongoing basis. Currently, the Company does not hedge against interest rate risk.

(ii) Foreign currency risk
The Company is primarily exposed to currency fluctuations related to the Canadian dollar on expenditures that are denominated in United States (US) dollars and Mexican Pesos. The Company does not actively manage this risk.

(iii) Price risk
The Company is exposed to price risk with respect to commodity pricing.

12. FINANCIAL RISK MANAGEMENT (continued)

(e) Sensitivity analysis

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

- The Company does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.
- A change in interest rates of 1% would have a corresponding change in net loss for the year of approximately $20,000 based on the cash balance at September 30, 2011.

(f) Fair values

The Company has designated its cash equivalents as held-for-trading, which is measured at fair value. Financial instruments included in amounts receivable, loans payable, and cash 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, 2011, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term nature of the instruments.

Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash of $844,615 is considered to be loans and receivables and cash equivalents of $2,003,563 is considered to be Level 2 and is measured at fair value for the Company at September 30, 2011.

13. CAPITAL MANAGEMENT

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

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

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

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

There were no significant changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

14. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to $1,730,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $950,000, due within one year.

The Company is subject to various lease commitments and is committed to expenditures of $104,700 in fiscal year 2012.

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The Company is also committed to certain common area costs in relation to their mining and exploration activities.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements**.** The Company raised $706,500 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2011. At September 30, 2011, the Company has met this spending requirement.

15. 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 27% (2010 – 30%) were:

	2011	2010
Net Loss for the year before income taxes	$ 4,261,579	$ 1,160,344
Expected recoverable income taxes at statutory rates	1,194,000	345,000
Increase (decrease) resulting from:		
Stock-based compensation	(896,000)	(133,000)
Share issue costs	472,000	56,000
Difference in Canadian tax rates	(67,000)	(148,000)
Differences in Mexican tax rates	-	74,000
Other	61,000	(525,000)
Change in Valuation allowance	(664,000)	408,000
Provision for income taxes	$ 100,000	$ 77,000

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)	2011	2010
Non-capital losses	625,000	334,000
Resource properties	958,000	986,000
Share issue costs	386,000	70,000
Valuation allowance	(1,969,000)	(1,305,000)
Provision for income taxes	$ -	$ 85,000

The Company has approximately $24,000,000 of Canadian exploration and development expenditures as at September 30, 2011 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 $2,501,000 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
	$
2026	53,000
2027	372,000
2028	527,000
2029	192,000
2030	1,098,000
2031	259,000
	2,501,000

16. SUBSEQUENT EVENT

Private Placement

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

Horseshoe Property

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