Castle Resources Inc.

Annual Report

2009

September 30, 2009

Dear Fellow Shareholders:

On Behalf of the Board of Directors, I am pleased to report to you our progress in 2009 as well as our outlook for the coming year.

On June 1, 2009, Castle entered into an option agreement to acquire up to 70% of the Elmtree Gold Project near Bathurst, New Brunswick. Consisting of 85 claims (1,375 hectares) the Elmtree property contains at least three gold-bearing zones, the higher grade West Gabbro Zone (WGZ), original Discovery Zone (DZ) and the larger tonnage, lower grade South Gold Zone (SGZ). In 2008, a NI 43-101 compliant resource estimate reported 525,000 indicated tonnes in the West Gabbro Zone grading 2.45 g/t gold; 1,556,000 inferred tonnes in the West Gabbro Zone grading 2.01 g/t gold. Castle will earn its interest over 3 years by spending $2.5 million in exploration expenses and paying a total of $1.2 million.

A 5000 metre drill program was undertaken to further understand the degree and scope of mineralization during the summer and early fall of 2009. Drill highlights on the high-grade West Gabbro Zone included results of 29 metres of 2.43 g/t Au., incl. 20 metres of 3.19 g/t Au and 18.5 metres of 1.27 g/t Au, incl. 1.3 metres of 4.58 g/t Au at or near to surface. Based on these promising results management elected to engage Micon International to conduct a Preliminary Economic Assessment.

On September 15, 2009, Castle entered into a 3 year option agreement to earn a 100% interest in 76 claims directly adjacent to the east of the current Elmtree Gold Project. A total of $30,000 and 200,000 Castle shares will be paid to the optioner with Castle committing to spend $200,000 over 3 years in drilling and exploration expenses.

On July 25, 2009, Castle management decided to option the 100% owned San Ramon claim group to MAG Silver Corp., a strategic move made in light of MAG's significant operating presence in the Zacatacas silver belt in Mexico. Castle was paid US$75,000 upon signing and MAG is required to spend US$3.2 million and pay Castle US$750,000 by the end of the agreement. In addition, Castle will retain a 1.5% NSR on the property.

On November 2, 2009, and subsequent to the year end, Castle made a strategic move into the Stewart B.C. mining camp by optioning the Horseshoe Property. The Horseshoe Property has numerous promising precious metal and base metal surface showings including the High-Grade Vein zone (grab samples have returned 20.1 g/t Au and 68.3 g/t Ag) and the Copper zone (grab samples have returned 2% Cu and 156 g/t Ag). Both of these targets represent visible surface lengths of 400+ meters of strike with widths of 3+ meters. Castle is planning a comprehensive exploration program for 2010

On behalf of the Board, I would like to thank you for your support. Please feel free to contact me to discuss our progress, our outlook and our plans for your company.

Sincerely,

"Stephen Shefsky"

Stephen Shefsky
President, CEO & Director

CASTLE RESOURCES INC.

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE YEAR-ENDED SEPTEMBER 30, 2009

(Prepared by Management on January 8, 2010)

INTRODUCTION

The following discussion and analysis is a review of the operations, current financial position and outlook for Castle Resources Inc. (the "Company" or "Castle") and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended September 30, 2009 and the notes thereto. This discussion covers the last completed fiscal year and the subsequent period up to the date of the filing of this management's discussion and analysis ("MD&A"). The audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All dollar amounts are stated in Canadian dollars, unless otherwise noted. Readers are encouraged to read the Company's public information filings on Sedar at www.sedar.com

FORWARD-LOOKING INFORMATION

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

DESCRIPTION OF THE BUSINESS

Overview

Castle Resources Inc. is a Toronto based junior resource company focused on high-quality advanced exploration projects in Mexico, British Columbia and New Brunswick, Canada. The Company's original focus was on the San Ramon silver exploration property in Zacatecas, Mexico, a prolific silver producing region in Mexico. The Company current focus is on the Elmtree Gold Project and the Murphy Claims in New Brunswick and the Horseshoe Property in British Columbia. The San Ramon Claim Groups has been option to MAG Silver Corp. Management's goal is to seek additional opportunities to continue to add value for shareholders.

History and corporate structure

Incorporation

The Company was incorporated under the Business Corporations Act (Alberta) on April 29, 2004. Castle was a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange (the "Exchange") with no active business.

Qualifying transaction

In 2006, Castle acquired mineral exploration properties known as the Se los Dije Group of Claims located in the State of Zacatecas in Mexico. The property composed of eight concessions totalling 312.2 hectares located approximately five kilometres north-east of the city of Zacatecas in the Zacatecas mining district. On March 28, 2007, the shareholders of Castle approved the completion of the qualifying transaction and the Company became a mineral exploration company

HIGHLIGHTS FOR CASTLE RESOURCES

- Acquisition of interest in the Elmtree Gold Property in New Brunswick, Canada
- Option 100% of the San Ramon claim group.
- Closed private placement $480,440 gross proceeds through equity financings.
- Acquisition of interest in the Horseshoe Property in British Columbia, Canada.
- Acquisition of interest in the Murphy Claims in New Brunswick, Canada.
- Extends expiry date of Warrant

Acquisition of the Elmtree Gold Property, New Brunswick, Canada

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.

Castle completed phase I drilling successfully, 3,135 metre drill in 16 holes, 732 samples were sent for analysis. Hole ELM09-52 includes 115 g/t Ag, 1.88% Zn, 1.96 Pb, hole ELM09-54 replicated Lacana hole ME85-001 includes a higher grade section of 3.19 g/t Au across 20 m (downhole thickness), hole ELM09-58 includes a higher grade section of 4.58g/t Au across 3 m (downhole thickness) and hole ELM09-61 replicated Lacana hole ME86-022.

Optioning the San Ramon Claim Group, Silver Project, Mexico

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 raised $480,440 gross proceeds through equity financings.

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 subsequent to year-end. 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.

Acquisition of the Horseshoe Property, British Columbia, Canada

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

HIGHLIGHTS FOR CASTLE RESOURCES (Cont'd)

Acquisition of the Murphy Claims, New Brunswick, Canada

The Company entered into an option agreement to acquire interest in the Murphy Claims property, located in New Brunswick. The Company can earn a 100% interest upon completion of the terms over a 3 year option period.

Warrant term extensions

Castle 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.

MINERAL EXPLORATION ACTIVITIES

The San Ramon Claim Group

Overview

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

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

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

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

MINERAL EXPLORATION ACTIVITIES (Cont'd)

Exploration Program

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

Option to MAG Silver Corp

On July 15, 2009, the Company optioned 100% of the San Ramon claim group to MAG Silver Corp. To earn their interest in the San Ramon property, MAG Silver has committed to exploration expenditures of US$500,000 in the first year of the option, US$500,000 in the second year of the option, US$1,000,000 in the third year of the option and US$1,250,000 in the fourth year of the option for total of US$3,250,000.

Following commercial production, Castle will retain a 1.5% NSR in the project. In addition, MAG Silver has agreed to the following payment schedule; US$75,000 upon signing of the option agreement and US$750,000 by the fifth anniversary of the agreement.

At September 30, 2009, management performed impairment assessment and has wrote down $3,688,185 in interest in mineral property on the San Ramon Claim Group.

The Elmtree Gold Project, New Brunswick, Canada

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

In February 2008, Mercator Geological Services completed a NI 43-101 compliant resource estimate for Stratabound Minerals Corp., which reported 525,000 indicated tonnes in the West Gabbro Zone grading 2.45 g/t gold; 1,556,000 inferred tonnes in the West Gabbro Zone grading 2.01 g/t gold; 2,367,000 indicated tones in the South Gold Zone grading 0.74 g/t gold; 583,000 tonnes in the Discovery Zone grading 1.15 g/t gold only, as well as 158,000 inferred tonnes in the Discovery Zone grading 1.31 g/t gold, 39.54 g/t silver, 0.69% lead and 2.00% zinc.

A 5000 metre diamond drilling program began on the property on August 3, 2009 with the objective of expanding the current resource in the WGZ, as well as testing other mineralized areas within the DZ and SGZ. The program was split into 2 separate phases. Phase I of drilling, comprising 3000 metres and Phase II of drilling, comprising 2000 metres.

Phase I drilling successfully delineated the West Gabbro Zone and confirmed mineralization intersected at depth under the main core of the West Gabbro Zone resource. Drilling to the west found that the West Gabbro Zone narrows and drilling to the east confirms that there is no fault-offset extension of the West Gabbro Zone.

MINERAL EXPLORATION ACTIVITIES (Cont'd)

The Elmtree Gold Project, New Brunswick, Canada (Cont'd)

Phase I program was completed in mid September, 2009. A total of 3,135 metres were drilled in 16 holes and 732 samples (including standards, blanks and duplicates as part of the QA/QC process) were sent for analyses and all analyses have been received. Two of the 16 holes were designed to replicate older Lacana drilling results as recommended by Mercator Geological Services in their NI 43-101 compliant technical report.

Highlights of drilling results

Hole	From	to	downhole thickness	g/t Au	Comments
ELM09-52	17.5	19	1.5	1.70	includes 115g g/t Ag, 1.88% Zn, 1.96% Pb
ELM09-52	126.5	128.5	1.5	3.52	
ELM09-52	175.5	177.5	2	1.30	
ELM09-52	188	191.5	3.5	1.05	
ELM09-54	29	58	29	2.43	replicated Lacana hole ME85-001 includes a higher grade section of 3.19 g/t Au across 20 m (downhole thickness)
ELM09-56	81.5	83.5	2	1.74	
ELM09-57	174	176	2	1.25	
ELM09-58	237.5	256	18.5	1.27	includes a higher grade section of 4.58g/t Au across 3 m (downhole thickness)
ELM09-61	25	30.5	5.5	1.58	replicated Lacana hole ME86-022
ELM09-66	209	211	2	1.15	
ELM09-67	233	235	2	1.60	

Phase II drilling began in early October, 2009 and was completed in mid to late October, 2009. Ten holes were drilled (1,986 metres) testing the South Gold Zone & Discovery Zone at depth and infilling previously unexplored areas. A total of 967 samples (including standards, blanks and duplicates as part of the QA/QC process) were collected and sent for analyses. All results have been received. As of the date of this writing, a press release on the results is forthcoming.

The Murphy Claims, New Brunswick, Canada

In mid September, 2009, Castle entered into an option agreement with George Murphy to earn a 100% interest in 76 contiguous claims (the "Murphy claims") tied onto the eastern boundary of the Elmtree claims. The agreement calls for a total payment of $30,000 and 200,000 shares of castle along with a commitment to spend $200,000 in drilling and exploration activities over 3 years.

In late November, 2009, Castle commissioned Micon Intertnational Consultants to perform a Preliminary Economic Assessment (PEA) on the possibility of extracting the high grade gold portion of the WGZ. Results are expected in early 2010.

MINERAL EXPLORATION ACTIVITIES (Cont'd)

Horseshoe Property, British Columbia, Canada

On November 2, 2009 Castle announced that it has entered into an agreement to acquire a 100% interest in the Horseshoe Claim Group in the prolific Stewart Mining Camp in northwest British Columbia, Canada.

Castle will earn a 100% undivided interest in the Horseshoe Property over a 3 year period by spending $1.5 million on exploration and drilling expenses. Castle will pay the vendor a total of $300,000 and will issue 360,000 shares of the Company over the term of the option, subject to exchange approval.

The Horseshoe Property has numerous promising precious metal surface showings including the High-Grade Vein showing, which has received most of the historic work in the area. According to a Minister of Mines Annual Report in 1926, a sample of quartz vein material assayed 86.2 g/t gold and 123 g/t silver.

During a property visit in October, 2009, 3 grab samples were collected along the High-Grade Vein, which returned values of 20.7 g/t Au and 68.3 g/t Ag; 2.23 g/t Au; and 0.9 g/t Au. The 4th grab sample was collected from a separate showing with a visible surface strike length of over 100 metres averaging 7+ metres in width and returned values of 2.0% Cu, 156 g/t Ag and 1.04 g/t Au.

Castle is planning a comprehensive exploration program for next year to test this vein system with the goal of developing a NI 43-101 compliant resource calculation. The closest past producer to the Horseshoe Property is known as the Porter-Idaho located less than 750 meters to the north of the property boundary.

Interest in mineral properties

The Company has capitalized $126,454 (September 30, 2008 - $528,631) in the San Ramon Claim Group, $635,067 (September 30, 2008 - $Nil) in the Elmtree Gold Property and $17,300 (September 30, 2008 - $Nil) in the Murphy Claims for the year ended September 30, 2009. The Company received $84,606 (2008 - $Nil) in option payment from MAG silver.

The Company performed an impairment assessment and wrote off $3,688,185 (2008 - $724,785) in San Ramon Group Claim. The capitalized cost for each property is detail in the following table.

MINERAL EXPLORATION ACTIVITIES (Cont'd)

	2009	2008
The San Ramon Claim Group, Silver Project, Mexico		
Balance at September 30, 2008	$ 4,094,337	$3,565,706
Exploration Expenditure		
Assaying	13,814	146,596
Drilling	-	150,985
Field labour	5,046	34,296
General expense	532	9,135
Mining duties, permits, fees and taxes	4,147	5,538
Professional and consulting fees	80,613	153,821
Site support and supplies	22,302	28,260
	$ 4,220,791	$ 4,094,337
Option Payment	(84,606)	-
Write-off of interest in mineral properties	(3,688,185)	-
Balance at September 30, 2009	$ 448,000	$ 4,094,337
The Elmtree Gold Property, New Brunswick, Canada		
Balance at September 30, 2008	$ -	$ -
Acquisition costs	115,945	-
Exploration Expenditure		
Assaying	17,221	-
Drilling	348,049	-
Equipment and rental	4,274	-
Field labour	16,495	-
Fuel and transportation	1,292	-
General expense	19,616	-
Professional and consulting fees	99,783	-
Site support and supplies	10,270	-
Travel and accommodations	2,122	-
Balance at September 30, 2009	$ 635,067	$ -
Val Uranium Project, British Columbia, Canada		
Balance at September 30, 2008	$ -	$ 53,906
Acquisition costs	-	27,574
Write-off of interest in mineral properties	-	(81,480)
Balance at September 30, 2009	$ -	$ -
The Murphy Claims, New Brunswick, Canada		
Balance at September 30, 2008	$ -	$ -
Acquisition costs	16,250	-
Professional and consulting fees	1,050	-
Balance at September 30, 2009	$ 17,300	$ -
Total Interest in mineral properties	**$ 1,100,367**	**$ 4,094,337**

OVERALL PERFORMANCE

Management has progressively been seeking potential mineral projects while continuing to explore and evaluate the Company's core projects.

The loss before provision of income taxes for the year ended September 30, 2009 was $4,718,278 ($0.18 per share) compared to a net loss of $1,181,296 ($0.05 per share) for the September 30, 2009 of the prior year. The increase is attributable to a non-recurring impairment write-down of $3,688,185 on the San Ramon Claim Group.

The Company has no current sources of revenue other than interest earned on cash equivalents which were derived from issuances of share capital. There are no known mineral reserves within the meaning of NI43-101, but there are indicated and inferred resources on the Elmtree property.

SELECTED HISTORICAL FINANCIAL DATA

The following table provides selected financial information that should be read in conjunction with the Audited Financial Statements and Notes of the Company for the applicable period, which have been prepared in accordance with Canadian GAAP.

	2009	**2008**	**2007**	**2006**	**2005**
For the Year Ended September 30,	**$**	**$**	**$**	**$**	**$**
Total Revenue	19,134	29,920	27,500	7,419	4,401
Net loss for the year	4,637,278	1,181,296	695,822	92,354	54,640
Loss per share (basic & diluted)	0.17	0.04	0.06	0.03	0.02
Interest in mineral properties	1,100,367	4,094,337	3,619,612	84,450	23,934
Total assets	1,377,314	6,023,858	4,596,507	311,665	369,466
Total long-term liabilities	-	81,000	81,000	-	-
Shareholders' equity	1,190,961	5,839,739	4,215,159	266,644	343,998

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

The following table sets out the annual financial information of Castle Resources Inc. and is derived from the Company's audited consolidated financial statements for the year ended September 30, 2009, and September 30, 2008. The information set out below should be read in conjunction with the audited consolidated financial statements and related notes prepared as of December 11, 2009 for the year ended September 30, 2009.

RESULTS OF OPERATIONS

Year Ended September 30, 2009, compared to Year Ended September 30, 2008

	2009	2008	Increase (Decrease)
Revenue	$ 19,134	$ 29,920	(10,786)
Professional fees	271,480	128,203	143,277
Consulting and management fees	255,000	212,630	42,370
Office and general	162,525	106,109	56,416
Shareholder relations	275,525	-	275,525
Stock-based compensation	60,000	-	60,000
Transfer agent and listing fee	22,053	33,545	(11,492)
Amortization	2,644	5,944	(3,300)
Write-down of interest in mineral properties	3,688,185	724,785	2,963,400
Future income taxes	(81,000)	(317,000)	236,000
Net Loss	4,637,278	864,296	3,772,982
Loss per share	0.17	0.04	0.13
Weighted average common share outstanding	26,763,425	22,613,835	4,149,590

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

Revenue

As at September 30, 2009, the Company was in the exploration stage and therefore did not have revenues from operations. Revenue consisted of interest income earned on cash equivalents in held during the year was $19,134 as compared to $29,920 for the year ended September 30, 2008, decrease of $10,786. The decreased is attributable to the decrease in cash equivalents as the Company did not raise financing and incurred property expenditures during the year.

Interest income for the three month period ending September 30, 2009 was $Nil as compared to $10,360 for the three month period ending September 30, 2008.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (Cont'd)

RESULTS OF OPERATIONS (Cont'd)

Year Ended September 30, 2009, compared to Year Ended September 30, 2008

Expenses

Expenses for the year ended September 30, 2009 totalled $1,049,227 compared with $486,431 in the prior year. The expenses are made up of consulting and management fees $255,000 (year ended September 30, 2008 - $212,630), stock-based compensation of $60,000 (year ended September 30, 2008 - $Nil), professional fees of $271,480 (year ended September 30, 2008 - $128,203), office and general of $162,525 (year ended September 30, 2008 - $106,109), shareholder relations of $275,525 (year ended September 30, 2008 - $Nil), transfer, listing and filing fees of $22,053 (year ended September 30, 2008 - $33,545) and amortization of assets of $2,644 (year ended September 30, 2008 – $5,944). The changes in expense for the year are as follows:

- Consulting fees increased to $55,000 as compared with $5,000 in the prior year. The Company hired a new corporate development executive at the end of September 30, 2009. Management fees also increased to $200,000 (year ended September 30, 2008 - $134,500) as a result of general increase in fees as per management fees contract. The increase in management and consulting fees is partially offset by the decrease in fees paid to outside consulting.

- Stock-based compensation of $60,000 (year ended September 30, 2008 - $Nil). On June 1, 2009, the Company granted a total of 1,500,000 stock options. The options vested immediately. The weighted average grant date fair value of these options was estimated at $0.04 each using the Black-Scholes option pricing model.

- Professional fees increased by $143,277 when compared to prior year. The Company incurred $75,428 (year ended September 30, 2008 - $100,137) in accounting fees which consisted of payments for internal financial reporting and external audit fees, $75,772 in due diligence fees (year ended September 30, 2008 - $Nil), $29,451 in geological consulting fees (year ended September 30, 2008 - $Nil). Included in professional fees is legal fees of $90,828 (year ended September 30, 2008 - $28,066) for general corporate matters. The Company incurred due diligence fees and legal fees mainly in seeking new mineral projects.

- Office and General of $162,525 (year ended September 30, 2008 - $106,109) are overhead costs which includes among other expenses, rent $34,667 (year ended September 30, 2008 - $40,535), insurance $13,633 (year ended September 30, 2008 - $16,612), part XII.6 tax $17,281 (year ended September 30, 2008 - $Nil), foreign exchange $36,465 (year ended September 30, 2008 - $Nil) and travel and accommodation $24,479 (year ended September 30, 2008 - $11,560). The increase in office and general expense when compare to September 30, 2008 is mainly from foreign exchange loss and the accrual of Part XII.6 tax. The Company has Mexican VAT tax receivable of $89,249 (1,106,367 Pesos) at September 30, 2009. The strengthening of the Canadian currency has resulted in the increase in foreign exchange losses.

- Shareholder relations of $275,525 (year ended September 30, 2008 - $Nil). 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 March 18, 2008 and April 2, 2008 to September 18, 2010. The Company value the extended term of warrant at $272,000 (net of $3,525 legal costs), a non-cash expenditure.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (Cont'd)

RESULTS OF OPERATIONS (Cont'd)

Year Ended September 30, 2009, compared to Year Ended September 30, 2008

Expenses (Cont'd)

Expenses for the three month period ended September 30, 2009 were $453,929 (three month period ended September 30, 2008 was $124,107). These changes in expenses are made up of consulting and management fees $65,750 (three month period ended September 30, 2008 was $16,010), stock-based compensation of $Nil (three month period ended September 30, 2008 was $Nil), professional fees of $48,299 (three month period ended September 30, 2008 was $75,593, transfer, listing and filing fees of $3,937 (three month period ended September 30, 2008 was $3,819), office and general of $59,578 (three month period ended September 30, 2008 was a recovery of $14,272), shareholder relations of $275,525 (three month period ended September 30, 2008 was $Nil) and amortization of assets of $840 (three month period ended September 30, 2008 was $2,421).

Net loss

For the year ended September 30, 2009, the Company recorded a loss of $4,637,278 with basic and diluted loss per share of $0.17 as compare to a loss of $864,296 with basic and diluted loss per share of $0.04 for the period ended September 30, 2008. The primary reason for the increase in the net loss was due to a substantial write-down of interest in mineral properties. Included in net loss is $3,688,185 (year ended September 30, 2008 - $724,785) in write-down of interest in mineral properties for the San Ramon Claim Group.

Castle incurred a net loss for the three month period ended September 30, 2009 $4,121,114 of or $0.15 per share. This compares to a loss of $755,463 or $0.03 per share for the three month period ended September 30, 2008.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (Cont'd)

Balance Sheet	Year end September 30, 2009	Year end September 30, 2008
Current Assets	$ 270,643	$ 1,921,087
Current Liabilities	186,353	103,119
Working Capital	84,290	1,817,968
Total Assets	1,377,314	6,023,858
Shareholders' Equity	1,190,961	5,839,739
Deficit	6,380,735	1,743,457

Current Assets

The decrease in current asset is attributable to the decrease in cash and cash equivalents and future income tax asset. In prior year, the Company has $1,304,100 invested in GICs. The Company had used the proceeds in exploration activities and to finance working capital requirement as the GICs matured in April 2009. The higher balance of cash equivalents in prior year is attributable to financing raised through private placements in March and April of 2008. There was no private placement financing in fiscal 2009.

Castle currently has significant net operating losses and other deductible temporary differences, which will reduce taxable income in future periods. As a result of flow through share issuance, certain future income tax asset totalling $375,000, have been recorded on the balance sheet at September 30, 2008. 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. These expenditures are renounced; temporary taxable differences created by the renunciation reduce capital stock which reduce future income tax asset by $375,000 at September 30, 2009.

Current Liabilities

The current liabilities are comparable to prior year balance. The Company accrued $124,896 (2008 - $73,756) in explorations costs at September 30, 2009. Castle commenced initial drilling program on the Elmtree Gold Project in August 2009, additional set-up costs were required which explain the higher accrued mineral property expenditures at September 30, 2009.

Total Assets

The total assets decreased by $4,646,544 when compared with total assets at September 30, 2008 mainly attributable to the write-down of interest in mineral properties and the decrease in future tax asset of $375,000 as the flow-through expenditures are renounced to investors. The Company completed an impairment assessment on the San Ramon Claim Group base on the agreement MAG Silver and wrote down $3,688,185 relating to these claims.

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (Cont'd)

Shareholders' Equity

The shareholders' equity decreased by $4,648,778 when compared with prior year. Capital Stock decreased to $6,470,696 (year ended September 30, 2008 - $6,828,196). When the exploration expenditures are renounced, temporary taxable differences created by the renunciation reduce capital stock by $375,000. During the year, the Company issued a total of 250,000 common shares valued at $17,500 on the Elmtree Gold Property and the Murphy Claims.

Factors Affecting Comparability of Quarterly Financial Information

Castle became a mineral exploration company on March 28, 2007 upon completing its Qualifying Transaction. Prior to this date, the Company was a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange Inc. (the "Exchange") with no active business.

The following table sets out key financial data (unaudited) on a quarter by quarter basis for the last eight quarters to the end of September 30, 2009.

Summary of Quarterly Results

	Sept-09 (i)	**Jun-09** (ii)	**Mar-09**	**Dec-08**
Net loss	4,121,114	266,649	160,130	149,385
Basic and diluted loss per share	0.15	0.01	0.01	0.01
Cash and cash equivalents	125,202	654,298	963,938	1,214,408
Interest in mineral properties	1,100,367	4,349,487	4,198,145	4,162,210
Total assets	1,377,314	5,502,183	5,694,390	5,908,676
Total long-term liabilities	-	81,000	81,000	81,000

	Sept-08 (iii)	**Jun-08**	**Mar-08** (iv)	**Dec-07**
Net loss (income)	755,461	156,747	(182,670)	134,758
Basic and diluted loss (income) per share	0.02	0.01	0.01	0.01
Cash and cash equivalents	1,402,460	1,587,229	870,970	121,791
Interest in mineral properties	4,094,337	4,211,718	4,176,527	3,885,069
Total assets	6,023,858	6,812,015	5,612,796	4,275,165
Total long-term liabilities	81,000	81,000	81,000	81,000

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION (Cont'd)

Summary of Quarterly Results (Cont'd)

(i) Net loss and comprehensive loss rose as a result of an impairment assessment on the San Ramon Claim Group based on the agreement with MAG Silver. The Company wrote down $3,688,185 relating to these claims. The normalized loss for fourth quarter of 2009 was $432,929 (net loss of $4,121,114 - less write-down of interest in mineral property of $3,688,185) compared to a loss of $112,156 (net loss of $755,461 less write-down of interest in mineral property of $643,305) for the fourth quarter of 2008. The increase was mainly attributable to the increase in Shareholder relations of $275,525 (three month period ended September 30, 2008 was $Nil) in the fourth quarter of 2009. The Company extended the expiry date of the common share purchase warrants issued in two tranches on March 18, 2008 and April 2, 2008. The new expiry date for all these warrants has now been extended until September 18, 2010. The value assigned to the extended term was $272,000 net of $3,525 legal costs.

(ii) Net loss and comprehensive loss for the three months ended June 30, 2009 was $266,649 compared to $156,747 for the three months ended June 30, 2008. On June 1, 2009, the Company granted 1,500,000 stock options valued at $60,000 using the Black-Scholes option pricing model. These options are vested immediately which resulted in fully expensing the $60,000 stock-based compensation at date of grant.

(iii) Net loss and comprehensive loss rose as a result of the write-off of the Val Uranium Project ($81,480) and the Legend of Cobalt Project ($643,305) total $724,785. The normalized net loss is $112,156 (add back write-down of $643,305).

(iv) The Company has income in second quarter of 2008; this is attributable to $317,000 future income tax recovery on flow through shares. Net loss before income tax is $134,330.

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

	September 30, 2009	September 30, 2008
Cash used in operating activities	$665,169	$ 462,379
Cash used investing activities	612,089	1,354,594
Cash flows from financing activities	-	2,430,876
Increase (decrease) in cash and cash equivalents	(1,277,258)	613,903
Cash and cash equivalents - beginning of year	1,402,460	788,557
Cash and cash equivalents - end of year	125,202	1,402,460

Operating Activities

Cash used in operating activities increased by $202,790. This is attributable to the increase in net loss as a result of increase in professional fees, consulting and management fees and office and general expenses.

Investing Activities

Cash used in investing activities decreased by $724,505 as a result of lower exploration activities in the San Ramon Claim Group. The company incurred $611,576 in interest in mineral properties on a cash basis.

Financing Activities

In 2008, the Company raised $2,679,000 (gross of $248,124 share issue costs) financing that closed in two tranches in March and April of 2008. There were no financings in 2009. 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.

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES (Cont'd)

LIQUIDITY

At September 30, 2009, the Company had cash and cash equivalents of $125,202 and working capital of $84,290. The Company has no long-term debt obligations that impact liquidity or future cash flows. The Company's financial objective is to ensure that it has sufficient liquidity in the form of cash and/or debt capacity to finance its ongoing requirements to support its strategy to explore for precious and base metals.

The Company has been successful in accessing the equity market, however, there is no guarantee that the Company will continue to able to access the equity markets, or that financing will be available upon terms acceptable to the Company.

The Company uses the following key financial measures to assess its financial conditions and liquidity. The comparative numbers is derived from the Company's audited consolidated financial statements as at September 30, 2009.

FINANCIAL MEASURES

	September 30, 2009	**September 30, 2008**
Current Ratio	1.45	18.63
Working Capital	84,290	1,817,968
Cash and cash equivalents	125,202	1,402,460

CAPITAL RESOURCES

The following is a summary of the Company's outstanding share data as of September 30, 2009 and January 8, 2010.

Common shares
At September 30, 2009, the Company had issued and outstanding 26,934,521 common shares (September 30, 2009 - 26,684,521). A total of 31,058,187 common shares are outstanding at January 8, 2010.

Stock options
At September 30, 2009, a total of 2,350,000 stock options are issued and outstanding with expiry dates ranging from March 28, 2012 through to June 1, 2014. The weighted average exercise price for all stock options is $0.17. All stock options entitle the holder to purchase common shares of the Company. There were no additional stock options issued or exercise between the periods from September 30, 2009 to January 8, 2010.

Warrants
At September 30, 2009, a total of 4,480,528 warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry dates ranging from October 2, 2009 through to September 18, 2010.

At January 8, 2010, a total of 6,138,261 warrants are outstanding, with expiry dates ranging from September 18, 2010 through to April 15, 2011.

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES (Cont'd)

Outlook and capital requirements

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

FLOW-THROUGH SHARE SPENDING COMMITMENT

The Company was 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 was 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 has institute the look-back rule, which would give it until December 31, 2009, to make the required expenditures. At December 31, 2009, the Company has met its spending commitment requirement.

RELATED PARTIES 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.

TRENDS

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

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

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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.

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.

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.

SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

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.

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.

SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

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.

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.

NEW ACCOUNTING POLICIES

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.

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.

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.

RECENT ACCOUNTING PRONOUCEMENT NOT YET ADOPTED

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.

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 lAS 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.

USE OF FINANCIAL INSTRUMENTS

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

COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $546,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in the consolidated financial statements. Additional minimum management contract commitments remaining under these contracts are approximately $117,500 all of which are due within one year.

RISKS AND UNCERTAINTIES

The Company completed its Qualifying Transaction within the time limit imposed by the Exchange. The Company is, since March 28, 2007, a mining company. An investment in the securities of the Company is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.

Development Stage Corporation & Exploration Risks

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

No History of Profitability

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

Foreign Operations

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

RISKS AND UNCERTAINTIES (Cont'd)

Government Regulations

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

Market Fluctuation and Commercial Quantities

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

Environmental Protection

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

Mining Risks and Insurance

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

RISKS AND UNCERTAINTIES (Cont'd)

Capital Investment

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

Conflicts of Interest

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Additional Information

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

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

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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.

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.

Continued...

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.

Continued...

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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CORPORATE INFORMATION

Directors

Stephen Shesfsky*
President & CEO
Toronto, Ontario, Canada

Mark Brennan
Toronto, Ontario, Canada

Anthony Croll*
Montreal, Quebec, Canada

Lester J. Fernandes*
Montreal, Quebec, Canada

Robert A. Campbell
Burlington, Ontario, Canada

Officers

Stephen Shefsky
President & CEO

Eric Szustak
Chief Financial Officer

***Member Audit Committee**

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Toronto, Ontario

Canadian Legal Counsel

WeirFoulds LLP
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Website: www.weirfoulds.com

Shares Traded

TSX Venture Exchange
Symbol CRI

Annual Meeting

February 19th 2010 at 10:00 a.m.
Castle Resources Inc.
Suite 800, 20 Victoria Street
Toronto, Ontario
M5C 2N8

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.