Castle Resources

CASTLE RESOURCES INC.
2011 ANNUAL REPORT

September 30, 2011

Dear Fellow Shareholders:

On Behalf of the Board of Directors, I am pleased to report to you our Company's progress in 2011 as well as our outlook for the coming year.

In 2011, Castle was focused on advancing the development of its 100% owned Granduc Copper Project located in northwest British Columbia. We were very successful in this exercise, having published an initial NI 43-101 resource estimate in Feb 2011, initiating and completing the rehabilitation of the Granduc Tunnel and beginning environmental studies, early stage First Nation consultations, and scoping level engineering and economic analysis.

Castle's 2011 surface drilling program was focused on significantly expanding the inferred resource initially published by SRK Consulting by drilling downdip on the main Granduc zone and stepping out towards the South Zone. Drilling on the Main Zone targeted below the 1800 foot horizon identified as an historical non NI 43-101 compliant resource estimate of 24 million tons grading 1.82% Cu (see Granduc Technical Report dated July 5, 2010). Castle also targeted the South Zone that Bell Copper successfully drilled in 2005/06 to delineate additional copper mineralization and confirmed continuity on strike with the Main Zone. Highlights of drill assays released to date include GD2011-25: 18 meters of 1.90% Cu and GD2011-16: 8 meters of 3.15% Cu.

Castle also completed the rehabilitation of the 17 km long haulage tunnel that connects the Granduc minesite to the haulage road leading directly to year round port facilities in Stewart, B.C. This was a milestone achievement in our efforts to move the Granduc Copper project forward.

In 2012, our objectives will be to continue to aggressively expand the copper resource through a combination of surface and underground drilling. In addition, we are aiming to publish a Preliminary Economic Assessment (PEA), begin the environmental assessment process, and further develop and rehabilitate certain underground workings at the Granduc.

Castle has raised a total of $22.3 million through 2 separate equity financings in 2011, and a $6 million flow-through raise completed in October, 2011, subsequent to our year end.

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,

"Mike Sylvestre"
Mike Sylvestre
President, CEO & Director

CASTLE RESOURCES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(Prepared by Management on January 20, 2012)

INTRODUCTION

The following discussion and analysis is a review of the operations, current financial position and outlook for Castle Resources Inc. (the "Company" or "Castle") and should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2011 and related notes thereto. The discussion covers the year end 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 or development projects in British Columbia and New Brunswick, Canada. The Company's focus is on the Granduc Project, Elmtree Gold Project, and Horseshoe Project. The San Ramon Claim Groups has been optioned to MAG Silver Corp. Management's goal is to seek additional opportunities to continue to add value for shareholders.

HIGHLIGHTS FOR CASTLE RESOURCES

- Raised approximately $22,321,750 gross proceeds through two equity financings during the year
- Raised approximately $5,999,994 through equity financing subsequent to year-end
- Acquired 100% interest in the Granduc Copper Project
- Completed the First Option and therefore can earn a 60% interest in Stratabound's 100% owned Elmtree Gold Property.
- Appointment of Stephen Shefsky as Executive Chairman
- Appointment of Mike Sylvestre as President and CEO and director

HIGHLIGHTS FOR CASTLE RESOURCES (continued)

Raised approximately $22,321,750 gross proceeds through two equity financings

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

On February 18, 2011, the Company closed a brokered private placement offering. The Company issued 19,675,000 shares at a price of $0.61 each for gross proceeds of $12,001,750. In connection with the private placement, the Company paid cash commissions of 6% of the gross proceeds raised and also issued compensation warrants equal to 6% of the total number of shares issued. Each compensation warrant entitles the holder to exercise at a price of $0.61 to one common share of the Company, until February 18, 2013.

Raised approximately $5,999,994 through equity financing subsequent to year-end

On October 19, 2011, the Company closed a brokered private placement comprised of 9,523,800 flow-through shares at a price of $0.63 per share for gross proceeds of $5,999,994. In connection with the private placement, the Company paid cash commissions of 5% of the gross proceeds raised.

Acquired 100% interest in the Granduc Copper Project

The Granduc Mine is an historic past-producing copper mine with excellent infrastructure in place. On April 6, 2010, the Company signed a binding letter of intent ("LOI") with Bell Copper Corporation ("Bell Copper") to acquire up to a 90% interest in the Granduc Mine and surrounding areas. On July 16, 2010, the Company and Bell Copper entered into an option agreement. On October 15, 2010, the Company acquired a 100% interest in the Granduc Project. The acquisition supersedes the option agreement dated July 16, 2010. Pursuant to the agreement, the Company paid Bell Copper an additional $2,000,000 and issued an additional 2,750,000 common shares of the Company for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

Completed the First Option and therefore can earn a 60% interest in Stratabound's 100% owned Elmtree Gold Property

As of September 30, 2011, the Company successfully completed the conditions to satisfy Option one of the agreement with Stratabound and thus can acquired a 60% undivided interest in Elmtree. The Company may notify Stratabound of this in the second quarter of 2012 and will enter into option agreement negotiation as soon as possible.

Appointment of Stephen Shefsky as Executive Chairman

On July 1, 2011, the Company announced the appointment of Mr. Stephen Shefsky as Castle's Executive Chairman. Mr. Shefsky has resigned from his prior post as Chief Executive Officer which he served since February 19, 2008.

Appointment of Mike Sylvestre as President and CEO and director

On July 1, 2011, the Company announced the appointment of Mr. Mike Sylvestre as Chief Executive Officer. Mr. Sylvestre retained his role as President of the Company but will resign from his prior post as Chief Operating Officer.

MINERAL EXPLORATION ACTIVITIES

Granduc Copper Mine (“Granduc Project”), British Columbia, Canada

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

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

The Granduc property is also subject to a 1.5% NSR in respect to the Teuton mineral claims and the Bell Mineral claims, payable to Teuton Resources Corporation (“Teuton”). The Company will also make annual payments of $25,000 and $25,000 worth of common shares (based on the average price of the shares over the previous 10 trading days prior to issuance) to Teuton, with respect to the amounts owed to Teuton, until the Teuton mineral claims cease or are put into commercial production. During the year, the Company paid $25,000 cash and 50,000 common shares (value at $22,500).

Included in prepaid expenses is $300,000 drilling deposit.

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

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

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

On June 7, 2011, the Company launched a 30,000 m drilling program designed to expand the extents of the known mineralization. The Company completed just over 30,000 metres of drilling in over 58 holes by early October, 2011.

MINERAL EXPLORATION ACTIVITIES (continued)

Highlights of the 2011 drilling results include:

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

Castle will also undertake an updated MRI and a preliminary economic assessment in Q2 2012.

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

On August 16, 2011, the Company acquired a single mining claim at the east end of the Tide tunnel entrance from Frank Kamermans. Due date on the claim was December 13, 2011. Upon completion of title transfer to CRI, the claim was renewed for 1 year until 2012. This claim is staked over the tide tunnel between other mining claims controlled by Castle. This claim is in good standings until September 22, 2012.

The Elmtree Gold Project, New Brunswick, Canada

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

MINERAL EXPLORATION ACTIVITIES (continued)

The Elmtree Gold Project, New Brunswick, Canada (continued)

In late November 2009, Castle commissioned Micon International Consultants to perform a Preliminary Economic Assessment (PEA) on the possibility of extracting the high grade gold portion of the WGZ. On April 23, 2010, the Company announced the filing of positive preliminary economic assessment ("PEA") on SEDAR for the Elmtree Gold Property. Management commissioned the Micon PEA to determine baseline economics of the Elmtree project. As stated in Castle's news release on March 5, 2010, the PEA indicates a pre-tax IRR of 25% using $900 Au/oz and a pre-tax IRR of 63% using $1,100 Au/oz, based on open pit mining and toll-milling of 1.117 million tonnes with an average gold grade of 2.41 g/t Au, a stripping ratio of 6.3 (W/O), and assumes a 90% Au recovery into a concentrate for sale to a nearby smelter.

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

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

As of September 30, 2011, Castle's expenditures on Elmtree totalled over 2.5 million dollar ($2,468,827 plus 10% administrative costs), meaning that the Company successfully completed the conditions to satisfy Option one of the agreement with Stratabound and thus acquired a 60% undivided interest in Elmtree. The Company may notify Stratabound of this in Q2 of 2012 and will enter into option agreement negotiation as soon as possible.

Horseshoe Property, British Columbia, Canada

On November 2, 2009, Castle 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.

MINERAL EXPLORATION ACTIVITIES (continued)

Horseshoe Property, British Columbia, Canada (continued)

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

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

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

While anomalous gold was found through diamond drilling on the High-Grade vein showing that can be correlated to anomalous gold surface sample locations, it is evident from the results that the occurrence of gold in this area is spotty and would require significant detailed work in order to advance the property. On this basis, it is recommended that the property be returned to the claim holders and Castle does not pursue further interest in the Horseshoe property at this time.

The San Ramon Claim Group, Zacatecas, Mexico

Overview

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

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

Historical resource estimates credit the property with 640,000 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 BehreDolbear in accordance with NI 43-101. It was designed to verify and expand the historical resource estimates and includes plans for surface mapping, sampling, and drilling programs.

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.

MINERAL EXPLORATION ACTIVITIES (continued)

Option to MAG Silver Corp ("MAG Silver")

On July 15, 2009, the Company optioned 100% of the San Ramon claim group to MAG Silver. To earn their interest in the San Ramon property, MAG Silver has committed to exploration expenditures of US$500,000 in the first year of the option, US$500,000 in the second year of the option, US$1,000,000 in the third year of the option and US$1,250,000 in the fourth year of the option for total of US$3,250,000. Following commercial production, Castle will retain a 1.5% NSR in the project. In addition, MAG Silver has agreed to the following payment schedule; US$75,000 upon signing of the option agreement and US$750,000 by the fifth anniversary of the agreement. As of January 20, 2012, MAG Silver continues to option the San Ramon property and conduct exploration work.

INTEREST IN MINERAL PROPERTIES

During the year, the Company capitalized an additional $18,080,838 in interest in mineral properties for an aggregated balance of $24,517,819. The capitalized cost for each property is detail in the following table.

The Granduc Project, British Columbia, Canada

Acquisition costs	$ 6,120,500
Exploration Expenditure	
Assaying	313,844
Drilling	5,894,712
Equipment and rental	555,685
Field labour	1,177,399
Fuel and transportation	3,445,080
General expense	226,034
Laboratory	38,198
Mapping	8,105
Professional and consulting fees	5,198,926
Site support and supplies	1,500,653
Travel and accommodations	344,566
Utilities	50,252
Less: refundable exploration tax credit	(3,805,622)
Balance at September 30, 2011	$21,068,332

The Elmtree Gold Project, New Brunswick, Canada

Acquisition Costs	$ 215,945
Exploration Expenditure	
Assaying	120,542
Drilling	741,836
Field labour	91,831
Fuel and transportation	29,820
General expense	72,663
Mining duties, permits, fees and taxes	12,380
Professional and consulting fees	1,049,101
Site support and supplies	82,526
Travel and accommodations	52,183
Balance at September 30, 2011	$ 2,468,827

INTEREST IN MINERAL PROPERTIES (continued)

The Horseshoe Property, British Columbia, Canada

Acquisition costs	$ 216,674
Exploration Expenditure	
Assaying	473
Drilling	95,333
Equipment and rental	5,715
General expense	18
Mining duties, permits, fees	27,235
Professional and consulting fees	58,483
Site support and supplies	8,885
Travel and accommodations	118,837
Balance at September 30, 2011	$ 531,653
The San Ramon Claim Group, Silver Project, Mexico	$ 449,007
Total interest in mineral properties	**$ 24,517,819**

SELECTED HISTORICAL FINANCIAL DATA

The following table provides selected annual audited 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.

	2011	**2010**	**2009**	**2008**	**2007**
For the Year Ended September 30,	**$**	**$**	**$**	**$**	**$**
Interest income	118,787	-	19,134	29,920	27,500
Net loss and comprehensive loss for the year	4,261,579	1,083,344	4,637,278	864,296	695,822
Loss per share (basic & diluted)	0.05	0.03	0.17	0.04	0.06
Interest in mineral properties	24,517,819	6,436,981	1,100,367	4,094,337	3,619,612
Total assets	32,930,363	7,641,260	1,377,314	6,023,858	4,596,507
Total long-term liabilities	2,069,411	1,783,590	-	81,000	81,000
Shareholders’ equity	25,412,531	3,371,619	1,190,961	5,839,739	4,215,159

RESULTS OF OPERATIONS AND CASH FLOWS

Revenue
The Company is in the development stage and therefore did not have revenues from operations. Interest income for the year ended September 30, 2011 was $118,787 (September 30, 2010 - $Nil).

As at September 30, 2011, the Company held approximately $2,000,000 in cashable GICs at an average interest rate of 1.00%. Year-to-date interest income was $116,772 (September 30, 2010 - $Nil).

Net loss and comprehensive loss
For the year ended September 30, 2011, the Company recorded a net loss and comprehensive loss of $4,261,579 (September 30, 2010 - $1,083,344) with basic and diluted loss per share of $0.05.

Fourth quarter net loss and comprehensive loss was $188,978, reflecting a decrease of $179,011 from the same period in 2010.

Net loss and comprehensive loss is reduced by $100,000 (September 30, 2010 - $77,000) future income tax recovery. The future income tax recovery relates to the $396,000 flow-through shares issued in connection with the October 7, 2010 private placement. As the flow-through triggers the "more likely than not" test for future realization of some of these assets to be met (to the amount of the expected future income tax liability), certain assets can be valued at the date the flow-through funds are raised in anticipation of future renunciation.

Expenses
The Company recorded $4,496,213 in total expenses for the year ended September 30, 2011 as compared to $1,140,013 in the comparative period in 2010. The reasons for the increase in expense are as follows:

- The stock-based compensation for the year ended September 30, 2011 increased to $3,274,005 as compared to $445,800 at September 30, 2010. The Company granted 5,890,000 stock options during the year as compared to 2,040,000 in the prior year. Of the 5,890,000 stock options granted, approximately 5,873,000 vested immediately. This resulted in $3,274,005 charged to expense.

- Interest and financing fees increased to $286,058 for the year ended September 30, 2011 as compared to $47,790 for the same period in 2010. In 2010 fiscal year, the Company entered into a 5-year, non-revolving term loan facility in the principal amount of $2,200,000 with interest payable at the rate of 5% in the first 12 months and 9% in the following 48 months. The Company issued 3,600,000 drawdown warrants (valued at $216,000) and 300,000 standby warrants (valued at $15,000).The value of the warrants and the discount was recorded against the debenture to be accreted over the term of the debenture.

- Consulting and management fees for the year ended September 30, 2011 was $469,219 (September 30, 2010 - $360,479) due to the increased in the number of salary employees and consultants.

- Due to rapid growth of the business, professional fees increased to $163,210 (September 30, 2010 - $109,083) for the year ended September 30, 2011. Office and general expense for the year ended September 30, 2011 have also increased to $257,473 (September 30, 2010 - $143,915). One of the major components of office and general increase was the increase in rent.

RESULTS OF OPERATIONS AND CASH FLOWS (continued)

Fourth quarter expenses were $218,512, reflecting a decrease of $206,146 from the same period in 2010. This is mainly due to decrease of stock-based compensation expenses and consulting and management fee in the fourth quarter of 2011.

The above mentioned stock-based compensation expense and the interest and financing fees expense of are non-cash expenses which are added back in the cash flows statement under operating activities.

Cash Flows

Operating Activities
Operating activities used $2,176,491 of cash flow for the year ended September 30, 2011, representing an increase of $1,070,570 compared to the same period in 2010. This is mainly due to the increase expenses in 2011.

Fourth quarter cash used in operations was $679,919, reflecting a decrease of $40,134 from the same period in 2010.

Investing Activities
Cash used in investing activities of $16,749,968 for the year ended September 30, 2011, an increase of $13,279,589 compared to the same period in 2010. This is mainly due to the increase in exploration activities on the Granduc Project and the Elmtree Gold Project.

Fourth quarter cash used by investing was $9,493,618, reflecting an increase of $6,639,908 from the same period in 2010.

Financing Activities
Financing activities generated $21,673,154 of cash flow for the year ended September 30, 2011, representing an increase of $17,120,573 compared to the same period in 2010. The Company raised $22,321,750 thru two private placements during the year. The Company received $1,070,770 on the exercise of warrants and $1,110 on the exercise of broker warrants.

Fourth quarter cash received by financing was $115,160, reflecting a decrease of $3,405,083 from the same period in 2010.

SELECTED ANNUAL AND QUARTELY FINANCIAL INFORMATION

SUMMARY OF ANNUAL RESULTS

Balance Sheet	Year-end September 30, 2011	Year-end September 30, 2010	Year-end September 30, 2009
Current Assets	$ 7,876,505	$ 968,442	$ 270,643
Current Liabilities	5,448,420	2,485,851	186,353
Working Capital	2,428,085	(1,517,409)	84,290
Total Assets	32,930,363	7,641,260	1,377,314
Shareholders' Equity	25,412,531	3,371,819	1,190,961
Deficit	11,725,658	7,464,079	6,380,735

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly financial information of Morumbi Oil & Gas Inc. derived from unaudited interim financial statements prepared by management in accordance with Canadian GAAP.

Quarter ended	September 30, 2011 $	June 30, 2011 $	March 31, 2011 $	December 31, 2010 $
Net loss and comprehensive loss for the period	188,978	244,996	2,204,876	1,622,729
Basic and diluted loss per share	0.00	0.00	0.03	0.02
Expenses	218,512	295,672	2,230,855	1,735,327
Interest in mineral properties	24,517,819	15,104,435	11,897,793	11,307,531
Working capital (deficiency)	2,428,085	12,055,027	15,323,777	4,607,523
Stock-based compensation	58,705	-	1,697,200	1,518,100
Interest income	29,535	50,675	25,979	12,598

Quarter ended	September 30, 2010 $	June 30, 2010 $	March 31, 2010 $	December 31, 2009 $
Net loss and comprehensive loss for the period	367,989	481,477	113,341	120,537
Basic and diluted loss per share	0.01	0.01	0.00	0.00
Expenses	424,658	481,477	113,341	120,537
Interest in mineral properties	6,436,981	1,722,823	1,558,831	1,459,455
Write-down of mineral properties	20,331	-	-	-
Working capital (deficiency)	(1,517,409)	84,704	420,985	83,366
Stock-based compensation	173,000	272,800	-	-

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

LIQUIDITY

At September 30, 2011, the Company had cash and cash equivalents of $2,848,178 and working capital of $2,428,085. Included in amounts receivable are $3,425,522 BC refundable tax credits and $1,466,530 GST/HST receivable. The Company received approximately $1,284,000 GST/HST refund subsequent to year-end. The Company anticipate the receiving of BC tax credit in the second quarter of 2012.

October 19, 2011, the Company raised $5,999,994 financing thru the issue of 9,523,800 flow-through shares at a price of $0.63 per share. The Company has been successful in accessing the equity market, while there is no guarantee that this will continue to be available, management has no reason to expect that this capability will diminish in the near term.

FINANCIAL MEASURES

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

	September 30, 2011	September 30, 2010
Current Ratio	1.45	0.38
Working Capital (Deficiency)	2,428,085	(1,517,409)
Cash and cash equivalents	2,848,178	101,483

CAPITAL RESOURCES

The following is a summary of the Company's outstanding share, warrant and stock option data as of September 30, 2011 and January 20, 2012.

Common shares

At September 30, 2011, the Company had issued and outstanding 106,174,537 common shares. The Company issued 9,523,800 common shares on October 19, 2011 private placement. The Company also issued 51,021 to Teuton Resources Corporation and further issued 30,000 common shares on the exercise of warrants subsequent to year-end. At January 20, 2012, the Company had issued and outstanding 115,779,358 common shares.

Stock options

At September 30, 2011, a total of 10,010,000 stock options are issued and outstanding with expiry dates ranging from March 28, 2012 through to August 2, 2016. All stock options entitle the holder to purchase common shares of the Company. There were no stock options issued or exercised between October 1, 2011 and January 20, 2012

Warrants

At September 30, 2011, a total of 27,543,175 warrants and brokers' warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry dates ranging from January 31, 2012 through to July 14, 2015. Subsequent to year-end, 30,000 warrants were exercised at a price of $0.30. At January 20, 2012, the Company had 27,513,175 warrants issued and outstanding.

OUTLOOK AND CAPITAL REQUIREMENTS

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

RELATED PARTIES TRANSACTIONS

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

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

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

SUBSEQUENT EVENT

Private Placement

On October 19, 2011, the Company closed a brokered private placement comprised of 9,523,800 flow-through shares at a price of $0.63 per share for gross proceeds of $5,999,994. In connection with the private placement, the Company paid cash commissions of 5% of the gross proceeds raised.

Horseshoe Property

On December 5, 2011, the Company terminated further exploration work on the Horseshoe Property with all obligations from that date being terminated and no interest earned or retained. The Company write-down approximately $531,000 costs capitalized in this property in Q1 2012.

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.

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 end beginning September 30, 2011.

The following information is presented in pursuant to the October 2008 recommendations of the Canadian Performance Reporting Board relating to pre-2011 communications about IFRS conversion and to comply with Canadian Securities Administrators Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effect on our financial statement. Readers are cautioned, however that it may not be appropriate to use such information for any other purposes. This information also reflects the Company's most recent assumptions and expectations; circumstances may arise, such as changes in IFRS regulation or economic conditions, which could change these assumptions or expectations.

We have developed a plan for our changeover to IFRS comprised of three related phases:

- Review and Assessment
- Design
- Implementation

Phase 1: Review and Assessment Phase

The objective of this phase is to identify the required changes to our accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases.

Phase 1 involves:

- A detailed review of all relevant IFRS standards to identify differences with our current accounting policies and practices
- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date, and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS
- The prioritization of those differences that could have a more than inconsequential impact on our financial statements, business processes or IT systems

Phase 2: Design Phase

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of our changeover plan. These solutions will result in certain necessary changes to our internal business processes and financial systems to comply with IFRS accounting and disclosure requirements.

Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders

Phase 3: Implementation Phase

In the third and final phase of our changeover plan, we will implement the changes to affected accounting policies and practices, business processes, systems and internal controls. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover.

Progress towards Completion of the Company's IFRS Changeover Plan

The Company has completed Phases 1 and Phase 2 of its changeover plan. The Company's changeover plan entails identifying the differences between Canadian GAAP and IFRS that impact our financial statements. Our analysis to date has determined that our accounting policies are largely aligned with IFRS requirements in many key areas. Appropriate resources have been identified to complete the changeover in a timely manner according to our plan milestones. We have also ensured training needs are met and will continue to be addressed throughout the changeover period. At this time the impact that the future adoption of IFRS will have on our financial position and results of operations is not reasonably determinable on a quantitative basis, however, such impact may be material. Additional information will be provided as we move towards the changeover date.

The Company has performed its review of IFRS based on standards applicable as of the date of this report. The International Accounting Standards Board ("ISAB") is still developing IFRS and may propose changes to the standards between the date of this report and the date the Company adopts IFRS. The Company's assessment of differences between Canadian GAAP and IFRS are based on its historical, current and expected business activities. Changes in business activities could also lead to unexpected differences to the Company's financial statements, notes and other disclosures as reported under Canadian GAAP and IFRS. The Company is tracking the differences between Canadian GAAP and IFRS on individual transactions throughout 2011 fiscal year. The Company has also analyzed the effect of changes in IFRS as they occur. The Company will continue to provide quarterly and annual updates on the IFRS Changeover Plan in future filings throughout the transition period.

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

In order to maintain the option agreement in good standing, the Company is required to conduct certain minimum levels of exploration activity. The exploration program concluded in 2010 more than satisfies the commitments established in the option agreement for the year.

FLOW-THROUGH SHARE SPENDING COMMITMENT

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements**.** The Company raised $706,500 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2011. At September 30, 2011, the Company has met the spending requirement. In October 2011, the Company raised $5,999,994 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2011.

RISKS AND UNCERTAINTIES

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

Capital Investment

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

Government Regulations

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

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.

RISKS AND UNCERTAINTIES (continued)

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.

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

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

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

Insurance Policy
The Company property interest is located in British Columbia. The Company believes they carry adequate insurance prescribed by the British Columbia government.

RISKS AND UNCERTAINTIES (continued)

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent year ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Additional Information

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

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

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McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Castle Resources Inc.

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

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

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

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

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

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

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

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

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

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

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

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

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MIKE SYLVESTRE", Director

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
For the years ended September 30,

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

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.

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

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

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Castle Resources Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act *(Alberta)* on April 29, 2004. The Company is in the development stage, as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11, and is in the business of acquisition, exploration and development of mineral resource interests.

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

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

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

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

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

a) Basis of consolidation

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

All material intercompany balances and transactions have been eliminated.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

b) Cash and cash equivalents

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

c) Interest in mineral properties

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

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

d) Equipment

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

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

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

e) Measurement uncertainty and use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs and impairment of interest in mineral property carrying values. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, brokers' options, loan payable, long-term receivables, refundable exploration tax credits, and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

f) Asset retirement obligations

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

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimated undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. As at September 30, 2011 and 2010, management has determined that there are no material asset retirement obligations.

g) Income taxes

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

h) Stock-based compensation

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

i) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. Outstanding warrants described in Note 8 and outstanding options in Note 9 have not been included in diluted loss per share as they are anti-dilutive.

j) Foreign currency translation

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

k) Flow-through financing

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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

l) Financial instruments

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

m) Recent accounting pronouncements

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

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

3. AMOUNTS RECEIVABLE

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

4. EQUIPMENT

September 30, 2011

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

September 30, 2010

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

5. INTEREST IN MINERAL PROPERTIES

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

5. INTEREST IN MINERAL PROPERTIES (continued)

The Granduc Project, British Columbia, Canada

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

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

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

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

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

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

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

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

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

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

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

5. INTEREST IN MINERAL PROPERTIES (continued)

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

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

The Elmtree Gold Project, New Brunswick, Canada

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

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

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

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

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

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

The Horseshoe Claims, British Columbia, Canada

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

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

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

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

5. INTEREST IN MINERAL PROPERTIES (continued)

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

The San Ramon Claim Group, Silver Project, Mexico

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

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

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

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

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

6. LOAN PAYABLE

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

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

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

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

7. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

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

7. CAPITAL STOCK (continued)

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

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

Refer to Note 8(i) for additional details.

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

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

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

Refer to Note 8(iii) for additional details.

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

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

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

7. CAPITAL STOCK (continued)

Refer to Note 8(iv) for additional details.

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

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

Refer to Note 8(vii) for additional details.

8. WARRANTS

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

8. WARRANTS (continued)

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

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

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

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

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

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

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

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

8. WARRANTS (continued)

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

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

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

9. STOCK-BASED COMPENSATION

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

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

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

9. STOCK-BASED COMPENSATION (continued)

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

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

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

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

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

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

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

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

9. STOCK-BASED COMPENSATION (continued)

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

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

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

10. CONTRIBUTED SURPLUS

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

11. RELATED PARTY TRANSACTIONS

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

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

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

12. FINANCIAL RISK MANAGEMENT

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

(a) Capital Risk

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

(b) Credit Risk

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

(c) Liquidity Risk

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

(d) Market Risk

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

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

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

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

12. FINANCIAL RISK MANAGEMENT (continued)

(e) Sensitivity analysis

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

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

(f) Fair values

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

As at September 30, 2011, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term nature of the instruments.

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

13. CAPITAL MANAGEMENT

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

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

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

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

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

14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

15. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 27% (2010 – 30%) were:

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

b) Future income tax balances

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

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

The Company has approximately $24,000,000 of Canadian exploration and development expenditures as at September 30, 2011 which under certain circumstances may be utilized to reduce the taxable income of future years. The Company also has tax pools in Mexico related to their property of approximately $4,000,000 that are not expected to expire.

The Company has approximately $2,501,000 of non-capital losses in Canada which under certain circumstances can be used to reduce the taxable income of future years. The Canadian losses expire in the following periods:

Year	Amount $
2026	53,000
2027	372,000
2028	527,000
2029	192,000
2030	1,098,000
2031	259,000
	2,501,000

16. SUBSEQUENT EVENT

Private Placement

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

Horseshoe Property

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

CORPORATE INFORMATION

Directors

Stephen Shefsky (Chairman)*
Toronto, Ontario, Canada

Mike Sylvestre
Port Hope, Ontario, Canada

Anthony Croll*, **
Montreal, Quebec, Canada

Lester J. Fernandes*, **
Montreal, Quebec, Canada

Tim Mann **
Oakville, Ontario, Canada

Officers

Mike Sylvestre
President &
Chief Executive Officer

Lenny Foreht
V.P. Business Development

Eric Szustak C.A.
Chief Financial Officer

Jennifer Ta C.A.
Controller

*** Member Audit Committee**
****Compensation Committee**

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Shares Traded

TSX Venture Exchange
Symbol CRI

Annual Meeting

March 21, 2012 at 10:00 am

Weirfoulds LLP (Mason Room)
130 King Street West, Suite 1500
Toronto, Ontario, M5X 1J5