CASTLE RESOURCES INC.
2014 ANNUAL REPORT

Year Ended September 30, 2012

Dear Fellow Shareholders:

On Behalf of the Board of Directors, I am pleased to report to you our Company's progress in 2012 as well as our outlook for the coming year.

In 2012, Castle continued its focus on advancing the development of its 100% owned Granduc Copper Project located in northwest British Columbia. Our efforts targeted the continued expansion of the NI 43-101 copper resource, underground rehabilitation in the mine, continued baseline environmental data collection, community and First Nation consultation and engagement, and lastly, engineering studies, which ultimately will lead to the completion of a Preliminary Economic Assessment to be published in Q1 of 2013.

Castle's 2012 surface drilling program was focused on significantly expanding the inferred resource by drilling on the Granduc's South Zone and the North Zone, a separate and distinct area of high grade copper mineralization. Published subsequent to year end on December 12, 2012, the Granduc NI 43-101 resource now stands at: Measured & Indicated Resource of 11.32 million tonnes grading 1.47% Cu, 0.17 g/t Au and 12.4 g/t Ag and an Inferred Resource of 44.63 million tonnes grading 1.43% Cu, 0.19 g/t Au and 10.7 g/t Ag. This new Granduc resource clearly shows the size and scope of the Granduc Copper Project. Over the span of 3 field seasons, Castle has grown the Granduc resource from a historical non-compliant estimate to a large, high-grade copper resource that demonstrates the potential for significant upside going forward.

Castle also continued the rehabilitation of select underground areas on the main operating level of the mine. We now have safe passage for personnel and mobile equipment through the 17 km long haulage tunnel and into the underground mine offices.

In 2013, our objectives will be to complete a Preliminary Economic Assessment on the Granduc Copper Project and immediately launch into all components of a Pre-Feasibility Study, which will entail further underground rehabilitation and infill drilling, and also formally enter the B.C. Environmental Assessment process.

Castle raised a total of $16 million through 2 separate equity financings in fiscal 2012, and a $5.48 million raise completed in October, 2012, 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, 2012
(Prepared by Management on January 25, 2013)

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, 2012 and related notes thereto. The discussion covers the year-end up to the date of the filing of this MD&A. The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. Those consolidated financial statements are prepared in accordance with International Financial Reporting Standings ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Readers are encouraged to read the Company's public information filings on Sedar at www.sedar.com

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

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

Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure. For further information, please refer to the Company's consolidated financial statements and notes for the year ended September 30, 2012.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements relate to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated 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. The Company's focus is on the Granduc Project. The San Ramon Claim Groups has been optioned to MAG Silver Corp. Management's goal is to seek additional opportunities to continue to add value for shareholders.

MINERAL EXPLORATION ACTIVITIES

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

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

The Granduc property is subject to a 2% Net Smelter Royalty ("NSR") in respect to the B2 Gold Corp. mineral claims, payable B2 Gold Corp. The NSR can be purchased by the Company 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. The Company paid $50,000 cash and 101,021 common shares.

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

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

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

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

MINERAL EXPLORATION ACTIVITIES (continued)

Highlights of the 2011 drilling results:

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

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

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

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

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

MINERAL EXPLORATION ACTIVITIES (continued)

Highlights of the 2012 drilling results:

Hole		Start (m)	End (m)	Width (m)	% Cu	Au (g/t)	Ag (g/t)	%Fe
GD12-01		262	279.8	**17.8**	**1.28**	0.12	5.77	**19.76**
	inc	271.62	277	**5.38**	**1.83**	0.2	8.8	**36.09**
	and	289.5	315	**25.5**	**1.81**	0.23	7.13	**13.99**
	inc	295.49	311	**15.51**	**2.13**	0.29	9.07	**16.07**
	and	397	421.46	**24.46**	**1.40**	0.17	10.21	**10.2**
GD12-02		550.5	558	**7.5**	**1.97**	0.20	23.61	**9.36**
GD12-03		508	529	**21**	**1.47**	0.14	2.08	**18.11**
	inc	515.5	523	**7.5**	**1.94**	0.18	2.09	**15.86**
GD12-6		68.84	77.24	**8.4**	**2.56**	0.27	23.91	**28.64**

Castle has completed over 12 holes of its expansion drilling program and aims to complete the surface program at the Granduc by September. There are currently 4 drills turning at site with a strategy of:

a) completing the drilling on the South Zone begun in 2011, an area of robust mineralization that has extended the strike of the current resource by over 600 meters to the south of the historic Granduc orebody, and
b) Defining the potential copper mineralization of the North Zone identified by SRK Consulting as 'exploration potential' (see SEDAR technical report dated April 9, 2012).

The Company has received the statutory right of way from the British Columbia Ministry of Forests, Lands and Natural Resource Operations for the 17 kilometre long Granduc Tunnel. The tunnel connects the underground mine site to the Granduc road which leads directly to year round port facilities in Stewart, B.C.

New Granduc Resource Estimate published by Tetra Tech Dec 12, 2012

Updated Granduc Resource:

Category	Tonnes (Mt)	Copper (M lb)	Gold (K oz)	Silver (M oz)	Cu (%)	Au (g/t)	Ag (g/t)
Measured	**5.16**	**179.6**	**28.2**	**2.27**	**1.58**	**0.17**	**13.7**
Indicated	**6.16**	**188.2**	**33.2**	**2.25**	**1.39**	**0.17**	**11.4**
M&I	**11.32**	**367.7**	**61.4**	**4.52**	**1.47**	**0.17**	**12.4**
Inferred	**44.63**	**1,404.70**	**267**	**15.4**	**1.43**	**0.19**	**10.7**

Note: based on a CuEq Cut-off of 0.8%

Tetra Tech has estimated a new NI 43-101 mineral resource for the Granduc copper deposit.

MINERAL EXPLORATION ACTIVITIES (continued)

The Elmtree Gold Project, New Brunswick, Canada

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

In late 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.

The Company have successfully completed the conditions to satisfy Option one of the agreement with Stratabound and thus acquired a 60% undivided interest in Elmtree.

On June 22, 2012, the Company sold 60% interest in the Elmtree gold property and assigned all of the Company`s right, obligations and interest under the underlying option agreement to CNRP Mining Inc.

Pursuant to a purchase and assignment agreement entered into on April 30, 2012 between the Company and CNRP Mining Inc. ("CNRP') the Company received 18,000,000 common shares of CNRP - as partial consideration. The CNRP Shares were subsequently exchanged for common shares of Winston Resources Inc. ("`WRW") on a one-for-one basis pursuant to reverse take over transaction plan of arrangement involving CNRP and WRW..
In addition to the receipt of WRW common shares, the Company will also receive:

(i) Cash payment of $500,000 over a 12 month period (included in amounts receivable); and
(ii) a 3% NSR interest of the Elmtree Deposit.

MINERAL EXPLORATION ACTIVITIES (continued)

The fair value of WRW common share was $4,500,000 using the listed price of WRW on the closing date (June 22, 2012). The investment in WRW was mark-to-market. At September 30, 2012, the Company recorded an unrealized loss of $2,160,000 as part of the net gain on fair value through profit or loss investments in the statement of comprehensive loss. As at September 30, 2012, the quoted market value of the WRW common shares was $2,340,000.

Pursuant to the agreement with CNRP, until the earlier of the completion of the distribution of these common shares to the shareholders of the Company, or June 22, 2014, the Company will:

(i) assign all of its voting rights in and to these common shares to an officer of CNRP; and
(ii) not sell any of these common shares to any third party without the prior consent of CNRP

Horseshoe Property, British Columbia, Canada

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

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

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

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

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

MINERAL EXPLORATION ACTIVITIES (continued)

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

Overview

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

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

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

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

Exploration Program

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

Option to MAG Silver Corp ("MAG Silver")

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

At September 30, 2012, the Company wrote-down the San Ramon Claim Group totaled $449,007 and the related IVA recoverable of $84,358.

MINERAL EXPLORATION ACTIVITIES (continued)

INTEREST IN MINERAL PROPERTIES

During the year ended September 30, 2012, the Company capitalized an additional $19,103,933 in interest in mineral properties and write-down of two properties $1,055,468 and sale of Elmtree Property $2,483,171 for an aggregated balance of $40,029,762. The capitalized cost for each property is detailed in the following table.

The Granduc Project, British Columbia, Canada

Acquisition costs	$ 6,055,478
Exploration Expenditure	
Assaying	612,652
Drilling	10,705,050
Equipment and rental	3,983,138
Field labour	1,842,094
Fuel and transportation	6,388,203
General expense	492,267
Laboratory	114,347
Mapping	43,922
Professional and consulting fees	9,525,176
Site support and supplies	4,877,807
Travel and accommodations	586,852
Utilities	1,424
Less: refundable exploration tax credit	(5,198,648)
Balance at September 30, 2012	$40,029,762

The Elmtree Gold Project, New Brunswick, Canada

Acquisition Costs	$ 215,945
Exploration Expenditure	
Assaying	120,542
Drilling	741,836
Field labour	91,831
Fuel and transportation	29,820
General expense	76,092
Mining duties, permits, fees and taxes	12,380
Professional and consulting fees	1,094,346
Site support and supplies	80,317
Travel and accommodations	53,720
Sales of property	(2,516,829)
Balance at September 30, 2012	$ -

The Horseshoe Property, British Columbia, Canada

Acquisition costs	$ 216,674
Exploration Expenditure	
Assaying	473
Drilling	106,140
Equipment and rental	20,313
General expense	18
Mining duties, permits, fees	37,078
Professional and consulting fees	79,711
Site support and supplies	11,305
Travel and accommodations	134,749
Write-down of property	(606,461)
Balance at September 30, 2012	$ -

MINERAL EXPLORATION ACTIVITIES (continued)

The San Ramon Claim Group, Silver Project, Mexico

Acquisition and exploration cost	$ 449,007
Write-down of property	(449,007)
Balance at September 30, 2012	$ -
Total interest in mineral properties	**$40,029,762**

RESULTS OF OPERATIONS AND CASH FLOWS

Revenue

For the year ended September 30, 2012, the Company generated interest revenue of $32,573 (September 30, 2011 - $118,787). This is mainly due to the decrease of GIC deposit during the year. The Company is in the development stage and therefore did not have revenues from operations.

Fourth quarter interest income was $7,420, reflecting a decrease of $22,115 from the same period in 2011.

Expenses

For the year ended September 30, 2012, the Company recorded total expenses of $1,422,754 (September 30, 2011 - $4,496,213). This is mainly due to the decrease in share-based compensation of $3,274,005 and a decrease in consulting and management fees of $30,617, an increase in professional fees of $86,442, an increase in office and general of $100,829 and an increase in exploration cost of $50,704 in 2012.

Fourth quarter expenses were $350,458, reflecting an increase of $116,099 from the same period in 2011.

Net loss and comprehensive loss

For the year ended September 30, 2012, the Company recorded comprehensive loss of $3,655,197 (September 30, 2011 - $4,041,579). The Company recorded a gain on sale of Elmtree property of approximately $2,483,171 and a write-down of two exploration and evaluation assets of approximately $1,055,468 and recorded unrealized loss on fair value through profit or loss investment on Winston Resources Inc of $2,160,000 in 2012.

Fourth quarter net comprehensive loss was $4,494,042, reflecting an increase of $4,305,064 from the same period in 2011.

Cash Flows

Operating Activities

For the year ended September 30, 2012, the Company used cash in operating activities of $146,438 (September 30, 2011 - $2,176,491). This decrease is attributed to non-cash working capital increase of approximately $2,427,331 in 2012.

Fourth quarter cash generated by operating activities was $3,856,101, reflecting an increase of $4,536,020 from the same period in 2011.

Investing Activities

For the year ended September 30, 2012, the Company used cash in investing activities of $18,511,364 (September 30, 2011 - $16,749,968). This is mainly due to an increase of cash used in the Granduc property of approximately of $2,170,430.

RESULTS OF OPERATIONS AND CASH FLOWS (continued)

Fourth quarter cash used in investing activities was $6,885,314, reflecting a decrease of $2,608,304 from the same period in 2011.

Financing Activities

For the year ended September 30, 2012, the Company generated cash in financing activities of $16,666,109 (September 30, 2011 - $21,673,154). This is mainly due to a decrease of common shares issued through private placements of $6,321,641 in 2012.

There were no financing activities in the fourth quarter of 2012.

SELECTED ANNUAL AND QUARTELY FINANCIAL INFORMATION

Selected Three-Year Annual Information

	2012*	2011*	2010**
Interest revenue	**$ 32,573**	$ 118,787	$ -
Expenses	**1,422,754**	4,496,213	1,140,013
Net loss before income taxes	**2,206,836**	4,361,579	1,160,344
Net loss and comprehensive loss	**3,655,197**	4,041,579	1,083,344
Exploration and evaluation assets	**40,029,762**	24,368,649	6,436,981

*as per IFRS **as per Canadian Generally Accepted Accounting Principles

SUMMARY OF QUARTERLY RESULTS

Quarter ended	September 30, 2012 $	June 30, 2012 $	March 31, 2012 $	December 31, 2011 $
Net loss and comprehensive loss (income) for the period	4,494,042	(1,373,068)	392,843	141,380
Basic and diluted loss (income) per share	0.03	(0.01)	0.00	0.00
Expenses	350,458	371,845	447,273	253,178
Exploration and evaluation assets	40,029,762	33,267,734	30,703,245	29,124,873
Working capital (deficiency)	(611,936)	6,441,520	11,338,673	2,811,592
Write-down of exploration and evaluation assets	-	449,007	-	606,461
Interest income	7,420	14,368	179	10,606

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	1,402,729
Basic and diluted loss per share	0.00	0.00	0.02	0.02
Expenses	234,359	295,672	2,230,855	1,735,327
Exploration and evaluation assets	24,368,649	14,955,265	11,748,623	11,158,361
Working capital	2,428,085	12,055,027	15,323,777	4,607,523
Interest income	29,535	50,675	25,979	12,598
Share-based compensation	58,705	-	1,697,200	1,518,100

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, 2012, the Company had cash and cash equivalents of $856,485 and working capital deficiency of $611,936. Included in amounts receivable is $3,669,424 in BC refundable exploration tax credits and approximately $263,000 GST/HST receivable. The Company received the GST/HST refund subsequent to year-end. The Company received approximately $1,881,000 (including interest) BC tax credit refund in December 2012.

FINANCIAL MEASURES

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

	September 30, 2012	September 30, 2011
Current Ratio	0.90	1.45
Working Capital (deficiency)	(611,936)	2,428,085
Cash and cash equivalents	856,485	2,848,178

CAPITAL RESOURCES

The following is a summary of the Company's outstanding share, warrant and stock option data as of September 30, 2012 and January 25, 2013.

Common shares

At September 30, 2012, the Company had issued and outstanding 145,277,401 common shares. On October 2, 2012, the Company raised $5,479,670 by way of a brokered private placement of 19,802,079 common shares and 8,177,500 flow-through common shares. At January 25, 2013, the Company had 173,256,980 issued and outstanding common shares.

Stock options

At September 30, 2012, a total of 9,260,000 stock options are issued and outstanding with expiry dates ranging from June 1, 2014 through to August 2, 2016. All stock options entitle the holder to purchase common shares of the Company. At January 25, 2013, the Company stock options outstanding are unchanged.

Warrants

At September 30, 2012, a total of 23,769,143 warrants and brokers' warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry dates ranging from October 7, 2012 through to July 14, 2015. At January 25, 2013, the Company had 6,190,018 outstanding warrants and brokers' warrants.

OUTLOOK AND CAPITAL REQUIREMENTS

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

RELATED PARTIES TRANSACTIONS

These consolidated financial statements include balances and transactions with directors and officers of the Company and corporations related to them. These were incurred in the normal course of business and were measured at the exchange amount, which is the amount agreed between the parties. The Company paid fees for services to certain officers and directors or companies controlled by certain officers and directors during the period that were recorded in the accounts shown below:

The Company rents office space from a corporation controlled by a director of the Company. During the year ended September 30, 2012, rent of approximately $89,113 (September 30, 2011 – $68,438) charged by this corporation was included in office and general expenses.

Included in accounts payable and accrued liabilities at September 30, 2012 is approximately $382 (September 31, 2011 - $3,783; October 1, 2010 - $776) in fees due to directors and officers of the Company, in relation to director fees and office and travel expenses reimbursement. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company:

Key Management Compensation

	Year ended September 30, 2012	Year ended September 30, 2011
Exploration expenditures	$ 567,723	$ 630,928
Consulting fees	563,229	318,925
Share-based payments	-	3,011,700
Directors' fees	31,365	78,168
	$ 1,162,317	**$ 4,039,721**

COMMITMENTS AND CONTINGENCIES

The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to $2,138,000 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.

COMMITMENTS AND CONTINGENCIES (continued)

The Company is subject to various lease commitments and is committed to expenditures approximately of $217,300 in fiscal year 2013.

The Company's exploration and evaluation activities are subject to 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.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements. In October 2011, the Company raised $5,999,994 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2012. At September 30, 2012, the Company has met this spending requirement.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements. In March 2012, the Company raised $6,636,715 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2013. See Note 11 of the consolidated financial statements.

SUBSEQUENT EVENTS

On October 2, 2012, the Company announced it has raised proceeds of $5,479,670 by way of a brokered private placement (the "Offering") of 19,802,079 common shares ("Common Shares") and 8,177,500 flow-through common shares ("FT shares") at a price of $0.19 per Common Share and $0.21 per FT Share.

The agents to the Offering received a cash commission of 5% of the gross proceeds raised through the Agents under the Offering, and 1,398,979 compensation options (each a "Compensation Option") entitling them to acquire up to 1,398,979 Shares at a price of $0.19 per Compensation Option expiring on October 2, 2014.

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Transition to International Financial Reporting Standards

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

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

- in preparing the consolidated financial statements for the year ended September 30, 2012;
- the comparative information for the year ended September 30, 2011;
- the statement of financial position as at September 30, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, October 1, 2010.

First-time adoption of International Financial Reporting Standards

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

Recent Accounting Pronouncements

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

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 was issued in November 2009. This standard is the first step in the process to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. The standard is not applicable until October 1, 2015 but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IAS 1 Presentation of Other Comprehensive Income

In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" requiring companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 will full retrospective application. Early adoption is permitted. The Company has yet to assess the full impact of IAS 1.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27, and Separate Financial Statements, and SIC-12, Consolidation — Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning October 1, 2013. The Company has yet to assess the full impact of IFRS 10.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

IFRS 11 Joint Arrangements
IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by venturers. The Company has yet to assess the full impact of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint agreements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on August 1, 2013. The Company has yet to assess the full impact of IFRS 12.

IFRS 13 Fair Value Measurement
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair disclosures. The Company has yet to assess the full impact of IFRS 13.

IAS 32 Financial Instruments
IAS 32 was amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014 with retrospective application required. Earlier application is permitted. The Company has yet to assess the full impact of the amendments to IAS 32.

Reconciliations with prior C-GAAP disclosure

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented. In preparing the consolidated financial statements, the Company reflected the result of transition in the following tables:

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

Reconciliation of statement of financial position as of October 1, 2010

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		101,483	-	101,483
Amounts receivable		766,055	-	766,055
Prepaid expenses		15,904		15,904
Deferred income taxes		85,000	-	85,000
		968,442	-	968,442
Long-term				
Prepaid expenses		98,475	-	98,475
Deferred transaction costs		37,619	-	37,619
Long-term receivable		92,205	-	92,205
Equipment		7,538	-	7,538
Exploration and evaluation assets	(i)	6,436,981	(149,170)	6,287,811
		7,641,260	(149,170)	7,492,090
LIABILITIES				
Current				
Accounts payable and accrued liabilities		2,385,851	-	2,385,851
Due to shareholder		100,000	-	100,000
		2,485,851	-	2,485,851
Long-term				
Loan payable		1,783,590	-	1,783,590
		4,269,441	-	4,269,441
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	8,492,269	(67,500)	8,424,769
Contributed surplus	(iii)	1,503,000	(823,719)	679,281
Warrants		840,629	-	840,629
Deficit		(7,464,079)	742,049	(6,722,030)
		3,371,819	(149,170)	3,222,649
		7,641,260	(149,170)	7,492,090

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

Reconciliation of statement of financial position as of September 30, 2011

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		2,848,178	-	2,848,178
Amounts receivable		4,892,730	-	4,892,730
Prepaid expenses		135,597		135,597
Deferred income taxes		-	-	-
		7,876,505	-	7,876,505
Long-term				
Prepaid expenses		430,331	-	430,331
Long-term receivable		87,716		87,716
Equipment		17,992		17,992
Exploration and evaluation assets	(i)	24,517,819	(149,170)	24,368,649
		32,930,363	(149,170)	32,781,193
LIABILITIES				
Current				
Accounts payable and accrued liabilities		5,448,420	-	5,448,420
		5,448,420		5,448,420
Long-term				
Loan payable		2,069,411	-	2,069,411
		7,517,831	-	7,517,831
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	28,601,484	(287,500)	28,313,984
Contributed surplus	(iii)	4,788,281	(845,395)	3,942,886
Warrants		3,748,425	-	3,748,425
Deficit		(11,725,658)	983,725	(10,741,933)
		25,412,532	(149,170)	25,263,362
		32,930,363	(149,170)	32,781,193

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION (continued)

Reconciliation of statement of comprehensive loss for the year ended September 30, 2011

	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Expenses			
Stock-based compensation	3,274,005		3,274,005
Professional fees	163,210	-	163,210
Management and consulting fees	469,219	-	469,219
Transfer agent and listing fee	42,217	-	42,217
Office and general	257,473	-	257,473
Interest and financing fees	286,058	-	286,058
Depreciation costs	4,031	-	4,031
	4,496,213	-	4,496,213
Loss before the undernoted	(4,496,213)	-	(4,496,213)
Interest income	118,787	-	118,787
Gain on settlement of lawsuit	15,847	-	15,847
Net loss and comprehensive loss before income tax	(4,361,579)	-	(4,361,579)
Provision for income taxes			
Flow-through share premium	-	220,000	220,000
Deferred income tax	100,000	-	100,000
Net loss and comprehensive loss for the year	(4,261,579)	220,000	(4,041,579)
Basic and diluted loss per share	(0.05)	-	(0.04)
Weighted average number of shares outstanding – basic and diluted	90,088,539	-	90,088,539

Adjustments on transition to IFRS

(i) Exploration and Evaluation Assets

Under IFRS, once legal rights to explore a property has been acquired, costs directly related to exploration and evaluation expenditure are recognized and capitalized, in addition to the acquisition costs. Pre-exploration costs are expensed in the period in which they are incurred. As a result pre-exploration costs is derecognized as exploration and evaluation assets and recorded instead as an expense. The impact of the change was an increase to deficit and a decrease to exploration and evaluation assets of $149,170 at October 1, 2010, September 30, 2011.

(ii) Flow-through shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of the flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company separates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company had used them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. As a result, flow-through share premium is derecognized as share capital and recorded instead as a flow through share premium liability. To reflect the expenditures incurred by October 1, 2011, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision. The Company had used tax loss carry-forwards to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. The impact of the change was a reclassification from share capital to flow-through share premium of $67,500 at October 1, 2010 and September 30, 2011 - $287,500.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in ‘other liabilities’. This resulted in a liability of $Nil at the date of transition (September 30, 2011 - $Nil).

(iii) Contributed surplus

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company’s Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to contributed surplus payments reserve of $823,179 at October 1, 2010 and $845,395 at September 30, 2011.

USE OF FINANCIAL INSTRUMENTS

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

FLOW-THROUGH SHARE SPENDING COMMITMENT

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements. In October 2011, the Company raised $5,999,994 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2012. The Company has met this spending requirement.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements. In March 2012, the Company raised $6,636,715 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2013.

RISKS AND UNCERTAINTIES

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

Capital Investment

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

Government Regulations

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

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the control of the Company such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing companies, the international economic and political environment, changes in international investment patterns, global or regional consumption patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with minerals, and increased production due to improved mining and production methods. The metals industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of metals are discovered, a market will exist for the profitable sale of such metals. Commercial viability of precious and base metals and other mineral deposits may be affected by other factors that are beyond the Company's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on

production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Company not receiving an adequate return on invested capital.

Development Stage Corporation & Exploration Risks

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

Foreign Operations

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

Environmental Protection

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

Mining Risks and Insurance

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

Insurance Policy

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

No History of Profitability

The Company is a development stage company with no history of profitability. There can be no assurance that the operations of the Company will be profitable in the future. The Company has limited financial

resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Company may become unable to acquire and retain its mineral concessions and carry out its business plan.

Conflicts of Interest

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent period ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Additional Information

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

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012 AND 2011

INDEX	**PAGE**
Auditor’s Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Changes in Equity	5
Notes to the Consolidated Financial Statements	6-36

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Email info@mhc-ca.com
Web www.mhc-ca.com

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 consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010 and the consolidated statements of comprehensive loss and consolidated statements of cash flows and consolidated statements of changes in equity for the years ended September 30, 2012 and 2011, 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 International Financial Reporting Standards 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.

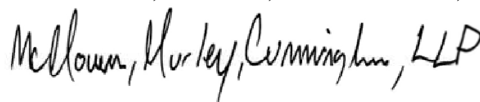
Opinion

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, 2012, September 30, 2011 and October 1, 2010, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that the Company has a history of losses and a need for working capital. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
January 24, 2013

A member of UHY International, a network of independent accounting and consulting firms

CASTLE RESOURCES INC.

Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at

	September 30, 2012 $	September 30, 2011 $	October 1, 2010 $
		(Note 19)	(Note 19)
ASSETS			
Current			
Cash and cash equivalents	856,485	2,848,178	101,483
Amounts receivable (Notes 6 and 9)	4,631,713	4,892,730	766,055
Prepaid expenses	200,335	135,597	15,904
Deferred income taxes	-	-	85,000
Total current assets	5,688,533	7,876,505	968,442
Long-term			
Prepaid expenses	317,929	430,331	98,475
Deferred transaction costs	-	-	37,619
Investment – Winston Resources Inc. (Note 9)	2,340,000	-	-
Long-term receivables (Note 8)	-	87,716	92,205
Equipment (Note 7)	14,370	17,992	7,538
Exploration and evaluation assets (Note 8)	40,029,762	24,368,649	6,287,811
Total assets	48,390,594	32,781,193	7,492,090
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6,300,469	5,448,420	2,385,851
Due to shareholder	-	-	100,000
Total current liabilities	6,300,469	5,448,420	2,485,851
Long-term			
Loan payable (Note 10)	2,342,492	2,069,411	1,783,590
Deferred tax liability (Note 20)	1,916,000	-	-
Total liabilities	10,558,961	7,517,831	4,269,441
SHAREHOLDERS' EQUITY			
Capital stock (Note 12)	45,254,084	28,313,984	8,424,769
Contributed surplus (Note 14)	3,751,436	3,942,886	679,281
Warrants reserve (Note 13)	3,183,678	3,748,425	840,629
Deficit	(14,357,565)	(10,741,933)	(6,722,030)
Total shareholders' equity	37,831,633	25,263,362	3,222,649
Total liabilities and shareholders' equity	48,390,594	32,781,193	7,492,090

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
SUBSEQUENT EVENTS (Notes 6, 13 and 21)
COMMITMENTS AND CONTINGENCIES (Note 18)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director
Signed "MIKE SYLVESTRE", Director

CASTLE RESOURCES INC.

Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

For years ended September 30,

	2012 $	2011 $ (Note 19)
Expenses		
Share-based compensation	-	3,274,005
Professional fees	249,652	163,210
Consulting and management fees	438,602	469,219
Exploration costs	50,704	-
Transfer agent and listing fees	36,053	42,217
Office and general	358,302	257,473
Interest and financing fees (Note 10)	282,745	286,058
Depreciation costs	6,696	4,031
	1,422,754	4,496,213
Loss before the undernoted	(1,422,754)	(4,496,213)
Interest income	32,573	118,787
Write-down of exploration and evaluation assets (Note 8)	(1,055,468)	-
Gain on sale of exploration and evaluation asset (Notes 8 and 9)	2,483,171	-
Write-down of long-term receivables (Note 8)	(84,358)	-
Unrealized loss on investment (Note 9)	(2,160,000)	-
Gain on settlement of lawsuit	-	15,847
Net loss before income taxes	(2,206,836)	(4,361,579)
Provision for income taxes		
Flow-through share premium (Note 11)	1,365,242	220,000
Deferred income taxes (Note 20)	(2,813,603)	100,000
	(1,448,361)	320,000
Net loss and comprehensive loss for the year	(3,655,197)	(4,041,579)
Loss per share		
Basic and diluted	(0.03)	(0.04)
Weighted average common shares outstanding		
Basic and diluted	131,178,444	90,088,539

CASTLE RESOURCES INC.

Consolidated Statements of Cash Flows

Expressed in Canadian dollars

For the year ended September 30,

	2012 $	2011 $
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	(3,655,197)	(4,041,579)
Charges not affecting cash:		
Share-based compensation	-	3,274,005
Unrealized loss on investment	2,160,000	-
Gain on sale of exploration and evaluation asset	(2,483,171)	-
Depreciation costs	6,696	4,031
Flow-through share premium	(1,365,242)	(220,000)
Deferred income taxes provision (recovery)	2,813,603	(100,000)
Debt facility costs	273,080	286,058
Write-down of exploration and evaluation assets	1,055,468	-
Net change in non-cash working capital	1,048,325	(1,379,006)
	(146,438)	(2,176,491)
INVESTING ACTIVITIES		
Equipment acquisitions	(3,073)	(14,484)
Exploration and evaluation assets	(18,508,291)	(16,735,484)
	(18,511,364)	(16,749,968)
FINANCING ACTIVITIES		
Common shares issued through private placements	16,000,109	22,321,750
Repayment of shareholder loan	-	(100,000)
Stock options exercised	187,500	66,250
Share issue costs	(1,134,525)	(1,686,726)
Warrants exercised	1,613,025	1,070,770
Broker warrants exercised	-	1,110
	16,666,109	21,673,154
CHANGE IN CASH AND CASH EQUIVALENTS:	(1,991,693)	2,746,695
Cash and cash equivalents, beginning of year	2,848,178	101,483
Cash and cash equivalents, end of year	856,485	2,848,178

CASTLE RESOURCES INC.

Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Common shares $	**Contributed surplus $**	**Warrants Reserve $**	**Accumulated Deficit $**	**Total Equity $**
Balance, September 30, 2011	28,313,984	3,942,886	3,748,425	(10,741,933)	25,263,362
Warrants exercised	2,425,232	-	(812,207)	-	1,613,025
Stock options exercised	345,625	(158,125)	-	-	187,500
Warrants expired	-	-	(6,240)	6,240	-
Shares issued as advance royalty	25,000	-	-	-	25,000
Stock options expired	-	(33,325)	-	33,325	-
Flow-through share premium	(1,365,242)	-	-	-	(1,365,242)
Utilization of share issue cost tax asset	897,603	-	-	-	897,603
Private placement	14,611,882	-	253,700	-	14,865,582
Loss for the year	-	-	-	(3,655,197)	(3,655,197)
Balance, September 30, 2012	45,254,084	3,751,436	3,183,678	(14,357,565)	37,831,633

	Common shares $	Contributed surplus $	Warrants Reserve $	Accumulated Deficit $	Total Equity $
Balance, October 1, 2010	8,424,769	679,281	840,629	(6,722,030)	3,222,649
Private placement	17,224,251	-	3,188,154	-	20,412,405
Warrants expired	-	-	(21,676)	21,676	-
Warrants and broker warrants exercised	1,330,564	-	(258,682)	-	1,071,882
Stock options exercised	22,900	(10,400)	-	-	12,500
Shares issued on property acquisition	1,509,000	-	-	-	1,509,000
Shares issued as advance royalty	22,500	-	-	-	22,500
Flow-through share premium	(220,000)	-	-	-	(220,000)
Share-based payments	-	3,274,005	-	-	3,274,005
Loss for the year	-	-	-	(4,041,579)	(4,041,579)
Balance, September 30, 2011	28,313,984	3,942,886	3,748,425	(10,741,933)	25,263,362

1. NATURE OF OPERATIONS AND GOING CONCERN

Castle Resources Inc. (the "Company") was incorporated in Ontario, Canada on May 1, 2006. The Company's principal assets are Exploration and Evaluation Assets ("E&E"), made up of acquisition costs and deferred exploration expenditures for mining properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties contain economically recoverable reserves.

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 20 Victoria Street, Suite 800, Toronto, Ontario, Canada, M5C 2N8.

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 exploration and evaluation assets 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 complete additional financings, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require a material write-down of the carrying values.

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's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

The Company needs equity capital and financing for its working capital and for the costs of 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. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations, however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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.

These consolidated financial statements were approved for issue by the Board of Directors on January 24, 2013.

2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and required as of September 30, 2012. As these consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with International Account Standard ("IAS") 1, Presentation of Financial Statements and by IFRS 1, First-time Adoption of IFRS. These consolidated financial statements have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out below were consistently applied to all periods presented unless otherwise noted.

2. BASIS OF PREPARATION (continued)

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 19 discloses the impact of the transition to IFRS on the Company's consolidated statements of financial position as at October 1, 2010 and September 30, 2011 and the consolidated statements of loss and comprehensive loss for the year ended September 30, 2011.

The preparation of consolidated financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new accounting standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after October 1, 2012. Updates not applicable or not consequential to the Company have been excluded thereof.

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9")
IFRS 9 was issued in November 2009. This standard is the first step in the process to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. The standard is not applicable until October 1, 2015 but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IAS 1 Presentation of Other Comprehensive Income ("IAS 1")
In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" requiring companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. Early adoption is permitted. The Company has yet to assess the full impact of IAS 1.

IFRS 10 Consolidated Financial Statements ("IFRS 10")
IFRS 10 replaces the consolidation guidance in IAS 27, *and Separate Financial Statements,* and SIC-12, *Consolidation — Special Purpose Entities,* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning Oct 1, 2013. The Company has yet to assess the full impact of IFRS 10.

IFRS 11 Joint Arrangements ("IFRS 11")
IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the operation's assets, liabilities, revenue and expenses. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 and supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Ventures. The Company has yet to assess the full impact of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12")
IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint agreements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on August 1, 2013. The Company has yet to assess the full impact of IFRS 12.

3. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

IFRS 13 Fair Value Measurement ("IFRS 13")
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has yet to assess the full impact of IFRS 13.

IAS 32 Financial Instruments – Presentation ("IAS 32")
IAS 32 was amended to clarify the criteria that should be considered in determining whether an entity has a legally enforceable right of set off in respect of its financial instruments. Amendments to IAS 32 are applicable to annual periods beginning on or after January 1, 2014 with retrospective application required. Earlier application is permitted. The Company has yet to assess the full impact of the amendments to IAS 32.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Such estimates and assumptions affect the carrying value of assets, the determination of impairment charges of non-current assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed, and affect estimates for decommissioning obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of share-based compensation, warrants, investments 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.

- Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred and capitalized during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, operating management expertise and existing permits. See Note 8 for details of capitalized exploration and evaluation costs.

- Mineral reserve estimates

Mineral reserve and mineral resource estimates are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as commodity prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environments in which the Company operates. Such changes are not within the Company's control and could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to, estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and timing of expenditure

The decommissioning and restoration cost estimates are updated annually during the life of a project to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Determination of economic viability of a project

Management has determined that costs associated with its exploration and evaluation assets have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of reported recovered quantities to proven and probable reserves, operating management expertise, existing permits and projected life of projects.

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based non-vested share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Asset lives, depletion/depreciation rates for property and equipment

Depreciation and depletion expenses are allocated based on assumed asset lives and depletion/depreciation rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations and comprehensive loss.

- Contingencies

Refer to Notes 1 and 18.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The accounts of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currencies

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value is determined at the grant date of the equity-settled share-based payments and is recognized on a graded-vesting basis over the period during which the employee becomes unconditionally entitled to the equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(d) Tax

Current tax
Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Exploration and evaluation assets

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and evaluation of mineral claims and crediting all revenues received prior to the commencement of commercial production against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. The Company recognizes in profit or loss costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount. Upon transfer of “Exploration and evaluation costs” into “Mine development”, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is expected to be capitalised within “Mine development”. After production starts, all assets included in “Mine development” are transferred to “Producing Mines”.

(f) 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

(g) Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation assets and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset’s recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset’s value in use.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount of the asset to its estimated recoverable amount.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments

Financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and cash equivalents, investments, amounts receivable and long-term receivable.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:
Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in finance income and finance costs on the statements of loss.

The Company has not designated any financial assets upon initial recognition as at FVTPL. The Company evaluates its financial assets at FVTPL to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVTPL using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of comprehensive loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. The Company has classified its cash equivalents and investments as FVTPL.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive loss. The losses arising from impairment are recognized in the statement of loss. The Company has classified amounts receivable, long-term receivables and cash as loans and receivables.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; and
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) the Company has transferred substantially all the risks and rewards of the asset; or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets
The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable, due to shareholder and loan payable.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Other financial liabilities
After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statement of loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statement of loss.

The Company has classified its accounts payable, due to shareholder and loan payable as other financial liabilities.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(i) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company separates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) capital stock. Upon expenses being incurred, the Company derecognizes the premium liability and recognizes a deferred tax liability for the amount of tax reduction renounced to shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through share proceeds.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, these taxes are included as financial expense in the statement of loss.

(k) Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. The diluted loss per calculation assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options and warrants would be anti-dilutive.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks and liquid short-term deposits in the form of high interest savings and money market accounts with original maturities of three months or less. The Company does not hold any asset backed commercial paper.

6. AMOUNTS RECEIVABLE

	September 30, 2012	September 30, 2011
GST/HST recoverable	$ 263,363	$ 1,466,530
Refundable exploration tax credits [(i)]	3,669,424	3,425,522
Receivable on sale of Elmtree Property (Note 9)	500,000	-
Other receivable	198,926	678
Balance at end of year	$ 4,631,713	$ 4,892,730

(i) Subsequent to September 30, 2012, the Company received a refund of $1,881,716.

7. EQUIPMENT

(a) Cost

	Office furniture and equipment $	Computer equipment $	Computer software $	Total $
Cost, October 1, 2010	6,765	8,897	7,127	22,789
Additions	10,237	3,147	1,100	14,484
Cost, September 30, 2011	17,002	12,044	8,227	37,273
Additions	-	3,074	-	3,074
Cost, September 30, 2012	17,002	15,118	8,227	40,347

(b) Accumulated depreciation

	Office furniture and equipment $	Computer equipment $	Computer software $	Total $
Balance, October 1, 2010	2,778	5,346	7,127	15,251
Depreciation	1,971	1,501	558	4,030
Balance, September 30, 2011	4,749	6,847	7,685	19,281
Depreciation	2,450	3,704	542	6,696
Balance September 30, 2012	7,199	10,551	8,227	25,977

(c) Net book value

	Office furniture and equipment $	Computer equipment $	Computer software $	Total $
Balance, October 1, 2010	3,987	3,551	-	7,538
Balance, September 30, 2011	12,253	5,197	542	17,992
Balance, September 30, 2012	9,803	4,567	-	14,370

8. EXPLORATION AND EVALUATION ASSETS

Granduc Claims, British Columbia, Canada	
Balance at October 1, 2010	$ 4,134,829
Acquisition costs	3,522,500
Capitalized costs	16,836,525
Exploration costs	(142,503)
Less: refundable exploration tax credits	(3,425,522)
Balance at September 30, 2011	$ 20,925,829
Acquisition costs	50,000
Capitalized costs	20,446,959
Less: refundable exploration tax credits	(1,393,026)
Balance at September 30, 2012	$ 40,029,762
The Elmtree Gold Project, New Brunswick, Canada	
Balance at October 1, 2010	$ 1,748,218
Acquisition costs	50,000
Exploration costs	(6,667)
Capitalized costs	670,609
Balance at September 30, 2011	$ 2,462,160
Acquisition costs	-
Capitalized costs	54,668
Sale of property (Note 9)	(2,516,828)
Balance at September 30, 2012	$ -
The Horseshoe Claims, British Columbia, Canada	
Balance at October 1, 2010	$ 105,934
Acquisition costs	134,000
Capitalized costs	291,719
Balance at September 30, 2011	$ 531,653
Capitalized costs	74,808
Write-down of property	(606,461)
Balance at September 30, 2012	$ -
The San Ramon Claim Group, Silver Project, Mexico	
Balance at October 1, 2010	$ 448,000
Capitalized costs	1,007
Balance at September 30, 2011	$ 449,007
Write-down of property	(449,007)
Balance at September 30, 2012	$ -
Total exploration and evaluation assets, September 30, 2012	**$ 40,029,762**

The Granduc Project, British Columbia, Canada

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, in addition to amounts previously paid in accordance with the superseded option agreement related to the Granduc Project, the Company paid Bell Copper Corporation 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 (including amounts paid pursuant to the superseded option agreement) of $4,500,000 and 3,000,000 common shares of the Company.

8. EXPLORATION AND EVALUATION ASSETS (continued)

The Granduc Project, British Columbia, Canada (continued)

On August 16, 2011, the Company completed an acquisition of a mining claim located in the Skeena mining division in British Columbia. The claim is related to the Granduc Project. In connection with this acquisition, the Company 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 granted a 2% NSR over the acquired claim.

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 commercial production. As of September 30, 2012, the Company has paid $50,000 cash and issued 101,021 common shares.

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 ("FirstOption"):

(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).

The Company has completed the First Option and therefore earned a 60% interest in Stratabound's 100% owned Elmtree Gold Property.

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

On June 22, 2012, the Company sold its 60% interest in the Elmtree gold property and assigned all of the Company`s right, obligations and interest in the underlying option agreement to CNRP Mining Inc. See Note 9.

8. EXPLORATION AND EVALUATION ASSETS (continued)

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 of 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 September 30, 2011).
(c) Payment of $80,000 in cash (paid) and issuance of 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 of 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.

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 in the Horseshoe Claims being earned or retained.

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 2012, MAG advised the Company they would not be continuing with their option related to the San Ramon Claim Group.

At September 30, 2012, the Company wrote-down the carrying value of the San Ramon Claim Group of $449,000 and the related IVA recoverable of $84,358.

9. INVESTMENT

On June 22, 2012, pursuant to a purchase and assignment agreement entered into on April 30, 2012 between the Company and CNRP Mining Inc. ("CNRP"), the Company received 18,000,000 common shares of CNRP as partial consideration for the sale of the Company's 60% interest in the Elmtree Gold Property. The CNRP shares were subsequently exchanged for common shares of Winston Resources Inc. ("WRW") on a one-for-one basis pursuant to reverse take over transaction plan of arrangement involving CNRP and WRW.

In addition to the receipt of WRW common shares, the Company will also receive:

(i) Cash payments of $500,000 over a 12 month period (included in amounts receivable); and
(ii) a 3% NSR interest on the Elmtree Deposit.

The fair value of the 18,000,000 WRW common shares was $4,500,000 using the quoted market price of WRW on the closing date (June 22, 2012). The investment in WRW is accounted for at fair value through profit and loss. At September 30, 2012, the Company recorded an unrealized loss of $2,160,000 related to the change in the quoted market value of the WRW common shares to September 30, 2012. As at September 30, 2012, the quoted market value of the WRW common shares was $2,340,000.

Pursuant to the agreement with CNRP, until the earlier of the completion of the distribution of these common shares to the shareholders of the Company, or June 22, 2014, the Company will:

(i) assign all of its voting rights in and to these common shares to an officer of CNRP; and
(ii) not sell any of these common shares to any third party without the prior consent of CNRP.

10. 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 amounting 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 was 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 the year ended September 30, 2012, the Company recorded $282,745 (2011 - $286,058) interest, accretion expense and finance fees in the consolidated statements of loss.

11. OTHER LIABILITIES

	September 30, 2012		September 30, 2011
	Issued on October 19, 2011	Issued on March 29, 2012	Issued on October 7, 2010
Balance, opening	$ -	$ -	$ -
Liability incurred on flow-through shares issued	761,904	603,338	220,000
Settlement of flow-through share liability on incurring expenditures	(761,904)	(603,338)	(220,000)
Balance, ending	**$** -	$ -	$ -

On October 19, 2011, the Company completed a brokered private placement for total proceeds of $5,999,994 consisting of 9,523,800 flow-through shares at $0.63 per share. Other liabilities include the liability portion of the flow through shares issued. At September 30, 2012, the Company had incurred the required qualifying resource expenditure and derecognized the $761,904 liability.

On March 29, 2012, the Company completed a bought deal private placement for total proceeds of $10,000,115 consisting of 8,408,500 common shares at a price of $0.40 and 15,083,444 flow-through shares at a price of $0.44 per share. Other liabilities include the liability portion of the flow through shares issued. As at September 30, 2012, the Company had incurred the required qualifying resource expenditure and derecognized the $603,338 liability.

12. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	Number #	Amount $
Balance at September 30, 2010	47,144,937	8,424,769
Private placement (i)	32,112,500	10,320,000
Private placement – warrant valuation (i)	-	(2,520,239)
Share issue costs (i)	-	(1,278,972)
Flow-through share premium	-	(220,000)
Shares issued on property acquisitions (Note 8)	2,870,000	1,429,000
Shares issued as advance royalty (Note 8)	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 (ii)	19,675,000	12,001,750
Share issue costs (ii)	-	(1,298,287)
Stock options exercised	45,000	12,500
Stock options exercised – value reallocation	-	10,400
Shares issued on property acquisitions (Note 8)	94,118	80,000
Balance at September 30, 2011	106,174,537	28,313,984
Private placement (iii)	9,523,800	5,999,994
Share issue costs (iii)	-	(354,415)
Flow-through share premium (Note 11)	-	(761,904)
Private placement (iv)	23,491,944	10,000,115
Share issue costs	-	(1,033,812)
Flow-through share premium (Note 11)	-	(603,338)
Warrants exercised	5,411,100	1,613,025
Warrants exercised – value reallocation	-	812,207
Share issued on property acquisition	51,020	25,000
Stock options exercised	625,000	187,500
Stock options – value reallocation	-	158,125
Utilization of share issue cost tax asset (Note 20)	-	897,603
Balance at September 30, 2012	145,277,401	45,254,084

(i) 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 placement, 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.

Refer to Note 13(i) for additional details.

12. CAPITAL STOCK (continued)

(ii) 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 13(ii) for additional details.

(iii) 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.

(iv) On March 29, 2012, the Company closed a bought deal private placement offering. The Company issued 8,408,500 common shares at a price of $0.40 and 15,083,444 flow-through shares at a price of $0.44 for gross proceeds of $10,000,115. 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 $0.40 for one common share of the Company, until March 29, 2014. On closing, the Company paid an aggregate amount of $600,007 in cash commissions and issued an aggregate of 1,409,518 compensation warrants. The Company incurred $98,558 in legal fees.

13. WARRANTS

	Number #	Amount $
Balance at September 30, 2010	13,144,299	840,629
Private placement (i)	15,506,250	2,520,239
Warrant issue costs (i)	-	(354,485)
Warrants and broker warrants (i)	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 10)	(300,000)	(15,000)
Warrants and broker warrants (ii)	1,180,500	460,400
Expiry of warrants	(412,500)	(21,676)
Balance at September 30, 2011	27,543,175	3,748,425
Brokers warrants (iii)	1,409,518	253,700
Warrants expired	(78,000)	(6,240)
Warrants exercised	(5,105,550)	(812,207)
Balance at September 30, 2012	23,769,143	3,183,678

13. WARRANTS (continued)

(i) In connection with the October 7, 2010 private placement (Note 12(i), 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.

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 of a common share purchase warrant exercisable at a price of $0.32 for a two year period.

(ii) In connection with the February 18, 2011 private placement (Note 12(ii)), 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.

(iii) In connection with the March 29, 2012 private placement (Note 12 (iv)), the agent received 1,409,518 finder's warrants which entitle the holder to purchase one common share of the Company at a price of $0.40. The finder's warrants are exercisable for 2 years. The estimated fair value of the finder's warrants of $253,700 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 1.18% and an expected life of 2 years.

As of September 30, 2012, the following warrants were outstanding:

Value $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
2,179,478	15,331,250(iv)	15,331,250	0.50	October 7, 2012
404,600	2,247,875(i)(iv)	2,247,875	0.32	October 7, 2012
129,900	1,180,500(ii)	1,180,500	0.61	February 18, 2013
253,700	1,409,518	1,409,518	0.40	March 29, 2014
216,000	3,600,000(iii)	3,600,000	0.25	July 14, 2015
3,183,678	23,769,143	23,769,143		

(i) These are broker's warrants issued in connection with the October 7, 2010 private placement exercisable into units.
(ii) These are brokers' warrants issued in connection with the February 18, 2011 private placement.
(iii) These are drawdown warrants issued in connection with the debt facility (Note 10).
(iv) Subsequent to year-end, these warrants expired unexercised.

14. SHARE-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.

14. SHARE-BASED COMPENSATION (continued)

The Plan provides that it is solely within the discretion of the Board to determine who receives 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.
- 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 following table reflects the continuity of stock options during the 2012 and 2011:

	September 30, 2012		September 30, 2011	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of year	10,010,000	0.43	4,165,000	0.20
Granted	-	-	5,890,000	0.59
Expired/Forfeited	(125,000)	0.34	-	-
Exercised	(625,000)	0.30	(45,000)	0.28
Balance, end of year	9,260,000	0.44	10,010,000	0.43

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.

14. SHARE-BASED COMPENSATION (continued)

On August 2, 2011, the Company granted a total of 100,000 stock options, 66,666 of which vested immediately, an additional 16,667 of which vests in 1 year and another 16,667 of which 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, 2012, the following stock options were outstanding:

Value $	Outstanding Options \#	Options Exercisable \#	Exercise Price $	Expiry Date
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
1,207,531	1,700,000	1,700,000	0.75	March 2, 2016
58,705	100,000	100,000	0.88	August 2, 2016
3,751,436	9,260,000	9,260,000		

15. RELATED PARTY TRANSACTIONS

These consolidated financial statements include balances and transactions with directors and officers of the Company and corporations related to them. The Company paid fees for services to certain officers and directors or companies controlled by certain officers and directors during the period that were recorded in the accounts shown below:

The Company rents office space from a corporation controlled by a director of the Company. During the year ended September 30, 2012, rent of approximately $89,113 (September 30, 2011 – $68,438) charged by this corporation was included in office and general expenses.

Included in accounts payable and accrued liabilities at September 30, 2012 is approximately $382 (September 30, 2011 - $3,783; October 1, 2010 - $776) in fees due to directors and officers of the Company, in relation to director fees and office and travel expenses reimbursement. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

15. RELATED PARTY TRANSACTIONS (continued)

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company:

Key Management Compensation

	Year ended September 30, 2012	Year ended September 30, 2011
Exploration expenditures	$ 567,723	$ 630,928
Consulting fees	563,229	318,925
Share-based payments	-	3,011,700
Directors' fees	31,365	78,168
	$ 1,162,317	$ 4,039,721

16. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes loan payable and equity, comprised of issued common shares, warrants, contributed surplus and deficit, in the definition of capital.

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 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 in are in the exploration and evaluation 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.

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

There were no changes in the Company's approach to capital management during 2012 and 2011. The Company is not subject to any externally imposed requirements.

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.

17. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its risk management objectives. The main objective of the Company's risk management process is 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 changes in the risks, objectives, policies and procedures during 2012 and 2011.

17. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk
Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

As at September 30, 2012, the Company had a cash balance of $856,485 (September 30, 2011 - $2,848,178; October 1, 2010 - $101,483) and current assets of $5,688,533 (September 30, 2011 - $7,876,505; October 1, 2010 - $968,442), to settle current liabilities of $6,300,469 (September 30, 2011 - $5,448,420; October 1, 2010 - $2,485,851).The Company has working capital deficiency of $611,936 at September 30, 2012 (September 30, 2011 – working capital of $2,428,085; October 1, 2010 - working capital deficiency of $1,517,409).

Interest Rate Risk
The Company has cash balances and no interest-bearing debt other than the loan payable as describe in Note 10. 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.

Credit Risk
The Company's credit risk is primarily attributable to guaranteed investment certificates and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable include harmonized sales tax due from the Federal Government of Canada and tax credits due from the Government of the Province of British Columbia, Canada. Management believes that the credit risk concentration with respect to these amounts included in the amounts receivable is remote, however such amounts are subject to government audit.

Sensitivity analysis
As at September 30, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

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:

Fair Value
The Company’s cash equivalents and investments are classified as held-for-trading, measured at fair value. Cash, amounts receivable, and long-term receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and loan payable are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash, amounts receivable, loan receivable, accounts payable and accrued liabilities, and loan payable approximate their fair value due to the relatively short periods to maturity of the financial instruments.

Fair Value hierarchy and liquidity risk disclosure
The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As at September 30, 2012, September 30, 2011 and October 1, 2010, the Company’s financial instruments that are carried at fair value, consisting of cash equivalents and investment in WRW common shares, have been classified as Level 2 and Level 1, respectively, within the fair value hierarchy.

18. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to $2,138,000 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 approximately of $217,300 in fiscal year 2013.

The Company's exploration and evaluation activities are subject to 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.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements**.** In October 2011, the Company raised $5,999,994 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2012. At September 30, 2012, the Company has met this spending requirement.

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligation with subscribers with respect to the Canadian Federal Income Tax requirements**.** In March 2012, the Company raised $6,636,715 through the issuance of flow-through shares and it required to spend such funds on qualified exploration expenditures by December 31, 2013. See Note 11.

19. TRANSITION TO IFRS

The Company's consolidated financial statements for the year ending September 30, 2012 are the first annual consolidated financial statements that comply with IFRS and these consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual consolidated financial statements prepared under IFRS by making an explicit and unreserved statement in those consolidated financial statements of compliance with IFRS. The Company will make this statement when it issues its 2012 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company applied IFRS was October 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all IFRS standards effective at the end of its first IFRS reporting period, which for the Company will be September 30, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Mandatory Exceptions

Estimates - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

19. TRANSITION TO IFRS (continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods to the previously-reported Canadian GAAP amounts for comparative periods. The changes made to the statements of financial position and statements of comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows; however as there have been no changes to the net cash flows, no reconciliations of cash flows has been presented.

Reconciliation of statement of financial position as of October 1, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		101,483	-	101,483
Amounts receivable		766,055	-	766,055
Prepaid expenses		15,904	-	15,904
Deferred income taxes		85,000	-	85,000
Total current assets		968,442	-	968,442
Long-term				
Prepaid expenses		98,475	-	98,475
Deferred transaction costs		37,619	-	37,619
Long-term receivable		92,205	-	92,205
Equipment		7,538	-	7,538
Exploration and evaluation assets	(i)	6,436,981	(149,170)	6,287,811
Total assets		7,641,260	(149,170)	7,492,090
LIABILITIES				
Current				
Accounts payable and accrued liabilities		2,385,851	-	2,385,851
Due to shareholder		100,000	-	100,000
Total current liabilities		2,485,851	-	2,485,851
Long-term				
Loan payable		1,783,590	-	1,783,590
Total liabilities		4,269,441	-	4,269,441
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	8,492,269	(67,500)	8,424,769
Contributed surplus	(iii)	1,503,000	(823,719)	679,281
Warrants		840,629	-	840,629
Deficit		(7,464,079)	742,049	(6,722,030)
Total shareholders’ equity		3,371,819	(149,170)	3,222,649
Total liabilities and shareholders’ equity		7,641,260	(149,170)	7,492,090

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of financial position as of September 30, 2011

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current				
Cash and cash equivalents		2,848,178	-	2,848,178
Amounts receivable		4,892,730	-	4,892,730
Prepaid expenses		135,597	-	135,597
Total current assets		7,876,505	-	7,876,505
Long-term				
Prepaid expenses		430,331	-	430,331
Long-term receivable		87,716	-	87,716
Equipment		17,992	-	17,992
Exploration and evaluation assets	(i)	24,517,819	(149,170)	24,368,649
Total assets		32,930,363	(149,170)	32,781,193
LIABILITIES				
Current				
Accounts payable and accrued liabilities		5,448,420	-	5,448,420
Long-term				
Loan payable		2,069,411	-	2,069,411
		7,517,831	-	7,517,831
SHAREHOLDER'S EQUITY				
Capital stock	(ii)	28,601,484	(287,500)	28,313,984
Contributed surplus	(iii)	4,788,281	(845,395)	3,942,886
Warrants		3,748,425	-	3,748,425
Deficit		(11,725,658)	983,725	(10,741,933)
Total shareholders' equity		25,412,532	(149,170)	25,263,362
Total liabilities and shareholders' equity		32,930,363	(149,170)	32,781,193

19. TRANSITION TO IFRS (continued)

Reconciliation of statement of loss and comprehensive loss for the year ended September 30, 2011

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Expenses				
Stock-based compensation		3,274,005	-	3,274,005
Professional fees		163,210	-	163,210
Consulting and management fees		469,219	-	469,219
Transfer agent and listing fee		42,217	-	42,217
Office and general		257,473	-	257,473
Interest and financing fees		286,058	-	286,058
Depreciation costs		4,031	-	4,031
		4,496,213	-	4,496,213
Loss before the undernoted		(4,496,213)	-	(4,496,213)
Interest income		118,787	-	118,787
Gain on settlement of lawsuit		15,847	-	15,847
Net loss and comprehensive loss before income tax		(4,361,579)	-	(4,361,579)
Provision for income taxes				
Flow-through share premium		-	220,000	220,000
Deferred income taxes		100,000	-	100,000
Net loss and comprehensive loss for the year		(4,261,579)	220,000	(4,041,579)
Basic and diluted loss per share		(0.05)	-	(0.04)
Weighted average number of shares outstanding – basic and diluted		90,088,539	-	90,088,539

19. TRANSITION TO IFRS (continued)

Adjustments on transition to IFRS

(i) Exploration and Evaluation Assets

Under IFRS, once legal rights to explore a property has been acquired, costs directly related to exploration and evaluation expenditure are recognized and capitalized, in addition to the acquisition costs. Pre-exploration costs are expensed in the period in which they are incurred. As a result pre-exploration costs is derecognized as exploration and evaluation assets and recorded instead as an expense. The impact of the change was an increase to deficit and a decrease to exploration and evaluation assets of $149,170 at October 1, 2010, September 30, 2011.

(ii) Flow-through shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of the flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company separates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company had used them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. As a result, flow-through share premium is derecognized as share capital and recorded instead as a flow through share premium liability. To reflect the expenditures incurred by October 1, 2011, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision. The Company had used tax loss carry-forwards to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares. The impact of the change was a reclassification from share capital to flow-through share premium of $67,500 at October 1, 2010 and September 30, 2011 - $287,500.

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in ‘other liabilities’. This resulted in a liability of $Nil at the date of transition (September 30, 2011 - $Nil).

(iii) Contributed surplus

On transition to IFRS, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company’s Canadian GAAP policy was to leave such amounts in contributed surplus. The impact of the change was a decrease to deficit and a decrease to contributed surplus payments reserve of $823,179 at October 1, 2010 and $845,395 at September 30, 2011.

20. INCOME TAXES

(a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of 26% (2011 - 27%) were as follows:

	Year ended September 30, 2012	Year ended September 30, 2011
	$	$
(Loss) before income taxes	(2,206,836)	(4,361,579)
Expected income tax recovery based on statutory rate	(574,000)	(1,178,000)
Share-based compensation	-	896,000
Unrealized loss on investment	562,000	-
Gain on sale of exploration and evaluation asset	(646,000)	-
Write-down of exploration and evaluation asset	274,000	-
Canadian Exploration and Development Overhead Expenses	329,000	125,161
Other	26,000	(43,161)
Benefit of tax losses not previously recognized	2,842,603	100,000
Deferred income tax provision (recovery)	2,813,603	(100,000)

(b) Deferred income tax balances

Deferred tax assets and liabilities have been recognized in respect of the following items:

	Year ended September 30, 2012	Year ended September 30, 2011
	$	$
Non capital losses	1,290,000	-
Share issue costs	499,000	-
Exploration and evaluation assets	(3,705,000)	-
Deferred tax (liability)	(1,916,000)	-

20. INCOME TAXES (continued)

(b) Deferred income tax balances (continued)

Deferred tax assets in Canada have not been recognized in respect of the following items:

	Year ended September 30, 2012	**Year ended September 30, 2011**
	$	$
Non capital losses	-	625,000
Share issue costs	-	386,000
Exploration and evaluation assets	-	958,000
Capital losses	270,000	-
Total deferred income tax assets not recognized	270,000	1,969,000

The Company also has tax pools in Mexico that may be utilized to offset future income under certain circumstances that are not expected to expire

The Company has approximately $5,162,000 of non-capital losses in Canada which under certain circumstances can be used to reduce the taxable income of future years. These 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	2,157,000
2032	763,000
	5,162,000

The Company has approximately $25,000,000 of Canadian exploration and development expenditures as at September 30, 2012 which under certain circumstances may be utilized to reduce the taxable income of future years. The Company also has tax pools in Mexico that may be utilized to offset future income under certain circumstances that are not expected to expire.

21. SUBSEQUENT EVENTS

On October 2, 2012, the Company announced it has raised proceeds of $5,479,670 by way of a brokered private placement (the "Offering") of 19,802,079 common shares ("Common Shares") and 8,177,500 flow-through common shares ("FT shares") at a price of $0.19 per Common Share and $0.21 per FT Share.

The agents to the Offering received a cash commission of 5% of the gross proceeds raised through the Agents under the Offering, and 1,398,979 compensation options (each a "Compensation Option") entitling them to acquire up to 1,398,979 Shares at a price of $0.19 per Compensation Option expiring on October 2, 2014.

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 Operations &
Corporate Development

Natasha Essar
V.P Environment &
Permitting

Eric Szustak C.P.A. C.A.
Chief Financial Officer

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

Office

Castle Resources Inc.
20 Victoria Street, Suite 800
Toronto, Ontario, M5C 2N8
Telephone: (416) 366-4100
Facsimile: (416) 366-4101
Website: www.castleresources.com

Transfer Agent

CIBC Mellon Trust Company
C/O Canadian Stock Transfer Company Inc.
320 Bay Street, (3rd floor) Toronto, Ontario
M5H 4A6
Website: www.canstockta.com

Auditors

McGovern, Hurley, Cunningham LLP
Toronto, Ontario

Canadian Legal Counsel

WeirFoulds LLP
Toronto, Ontario

Website: www.weirfoulds.com

Shares Traded

TSX Venture Exchange
Symbol CRI

Annual Meeting

March 26, 2013 at 10:00 am
WeirFoulds LLP
Suite 4100, 66 Wellington Street West
Toronto, Ontario, M5K 1B7