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CASTLE RESOURCES INC.

2010 ANNUAL REPORT

September 30, 2010

Dear Fellow Shareholders:

On Behalf of the Board of Directors, I am pleased to report to you our Company's progress in 2010 as well as our outlook for the coming year.

On Oct 15, 2010, subsequent to year end, Castle completed the outright purchase of 100% of the past producing Granduc Copper Mine from Bell Copper Resources, located near Stewart B.C. Castle moved quickly from August through October of 2010 to complete a drill program that would begin to demonstrate what the company believes is a large copper and precious metals resource in the Granduc.

The objective of Castle's 8,300 metre drill program at Granduc this year was to test the down dip extent of the historical deposit as well as replicate certain Newmont and Esso drill results. This goal was achieved as all holes encountered visible copper mineralization along a 1,000 metre strike. The larger objective is to continue this process and target the balance of the downdip mineralization and extend the strike to the south and north through a comprehensive drill campaign next field season starting in May 2011.

The development strategy for 2011 at Granduc is focused on generating a NI 43-101 resource estimate based on the 2010 drilling results combined with historic drilling results and then move quickly to commission a Preliminary Economic Assessment. In tandem, management is preparing a detailed exploration and mine rehabilitation plan that will focus on the balance of targets not yet drilled downdip and along strike. This will entail the partial rehabilitation of the 17 km long tunnel connecting the Granduc underground workings with the former millsite and parts of the mine infrastructure, including ramps and exploration drifts originally developed by Newmont and Esso. This development strategy is already underway and will be implemented starting in the spring of 2011.

Castle has raised a total of $12.7 million through 4 separate equity financings in 2010, most notably a $10.3 million raise underwritten by Scotia Capital completed on October 7, 2010, subsequent to our year end.

This fiscal year the Company also completed a 4,000 metre infill diamond drill program on the West Gabbro Zone ("WGZ") of the Elmtree Property near Bathurst NB. Micon International is currently completing a feasibility study set to be released Q2 of 2011.

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

Sincerely,

"Stephen Shefsky"
Stephen Shefsky
CEO & Director

CASTLE RESOURCES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

(Prepared by Management on January 18, 2011)

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, 2010 and related notes thereto. The discussion covers the year end up to the date of the filing of this management's discussion and analysis ("MD&A"). The audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting prineiples ("Canadian GAAP"). All dollar amounts are stated in Canadian dollars, unless otherwise noted. Readers are encouraged to read the Company's public information filings on Sedar at www.sedar.com

FORWARD-LOOKING INFORMATION

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

DESCRIPTION OF THE BUSINESS

Overview

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

HIGHLIGHTS FOR CASTLE RESOURCES

- Raised approximately $2,621,900 gross proceeds through three equity financings during the year
- Raised $2.2 million debt financing
- Raised approximately $10,320,000 through equity financing subsequent to year-end
- Acquired 100% interest in the Granduc Copper Project subsequent to year-end
- Strengthen management team with the appointment of a new President and Chief Operating Officer
- Appointment of a new director
- Castle filed a positive preliminary economic assessment ("PEA") for the Elmtree Gold Property.

HIGHLIGHTS FOR CASTLE RESOURCES (continued)

Raised approximately $2,621,900 gross proceeds through three equity financings

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

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

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

Raised $2.2 million debt financing

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

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

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

Raised approximately $10,320,000 gross proceeds through equity financing subsequent to year-end

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

HIGHLIGHTS FOR CASTLE RESOURCES (continued)

Castle Resources Acquires a 100% interest in Granduc Copper Project

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

Strengthen management team with the appointment of a new President and Chief Operating Officer ("COO")

The Company has appointed Mr. Mike Sylvestre as the Company's President and COO. Mr. Sylvestre will steer the development of the Granduc Mine and the Elmtree Gold Project. He is an experienced senior mining executive with a track record of leading major mining operations over a 30+ year career. Mr. Sylvestre has held senior management positions domestically and internationally as CEO Vale Inco New Caledonia, where he completed construction and began commissioning of the $4 billion Goro nickel hydromet project, President Vale Inco Manitoba where he managed one of Inco's largest integrated mining properties producing 130 million pounds of refined nickel per year, and Vice President of Operations PT Inco, one of the world's largest open cast nickel laterite operations.

Mr. Sylvestre holds a MSc and a BSc in Mining Engineering Degree from McGill University and Queen's University respectively. Mike has also studied at the Richard Ivey School of Business and MIT Sloan School of Management.

Appointment of a New Director

Castle has appointed Mr. Tim Mann, P. Eng., a highly experienced mining executive to join board as the Company moves to advance the past producing Granduc Mine, and put the Elmtree Gold Deposit into production.

Tim Mann is a mining engineer with extensive international operations and technical management experience in mine engineering, mine development and mine operations. His career spans close to 40 years, including senior operational assignments with Placer Dome and Goldcorp, and extensive consulting experience with SNC-Lavalin prior to establishing his own consulting business in 2004. He has been involved in numerous engineering, study and project management assignments within Canada and overseas. He is currently VP of Projects for Largo Resources Ltd.

Castle files positive preliminary economic assessment ("PEA") for the Elmtree Gold Property.

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.

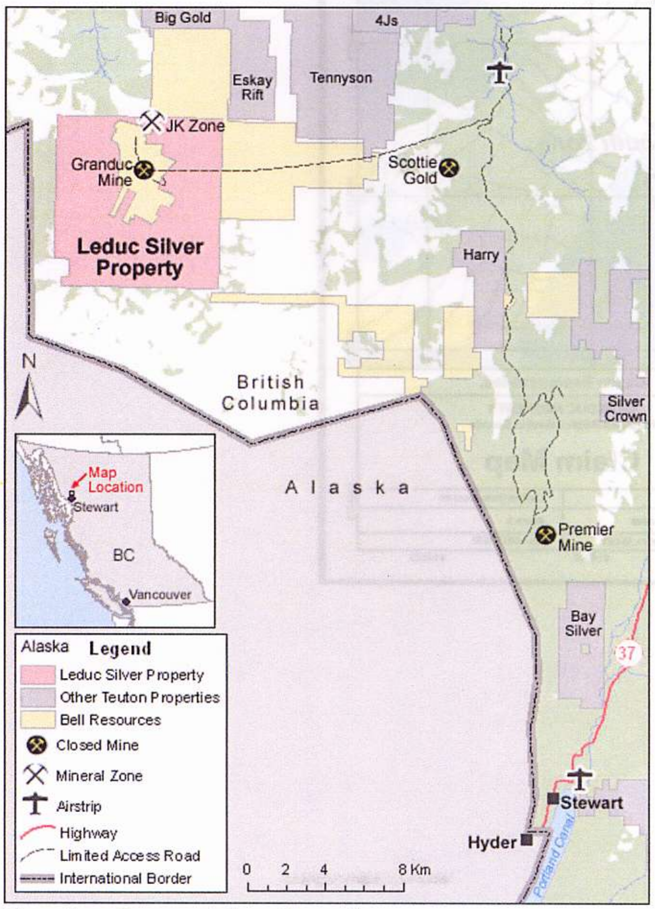
MINERAL EXPLORATION ACTIVITIES

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

On April 6, 2010, the Company signed a binding letter of intent ("LOI") with Bell Copper Corporation ("Bell Copper") to acquire up to a 90% interest in the Granduc Mine and surrounding areas. On July 16, 2010, the Company and Bell Copper entered into an option agreement. On October 15, 2010, the Company acquired a 100% interest in the Granduc Project. The acquisition supersedes the option agreement dated July 16, 2010.

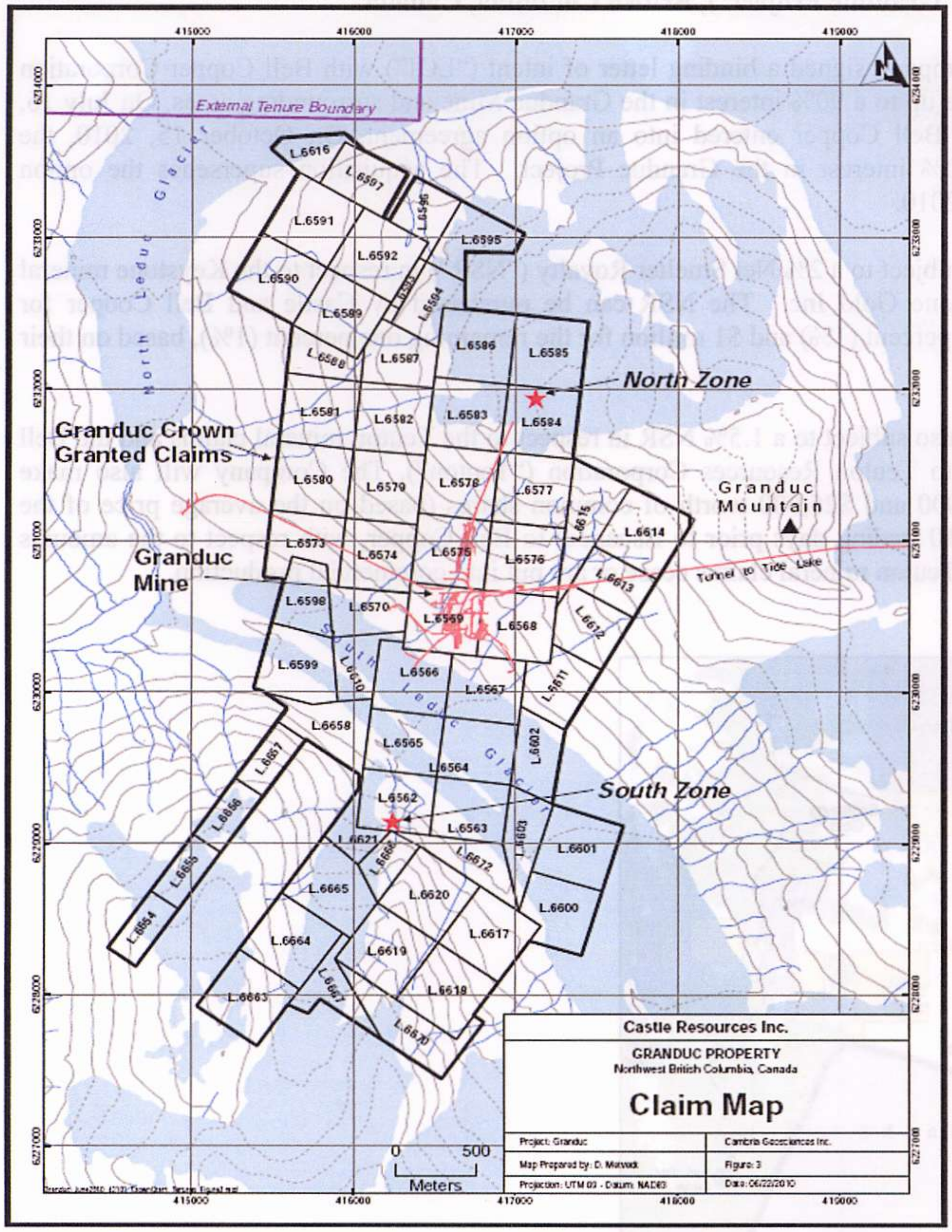
The Granduc property is subject to a 2% Net Smelter Royalty ("NSR") in respect to the Keystone mineral claims, payable to Keystone Gold Inc. The NSR can be purchased by Castle and Bell Cooper for $500,000 for the first one percent (1%) and $1 million for the remaining one percent (1%), based on their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

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



Granduc Copper Mine: Location

MINERAL EXPLORATION ACTIVITIES (continued)



MINERAL EXPLORATION ACTIVITIES (continued)

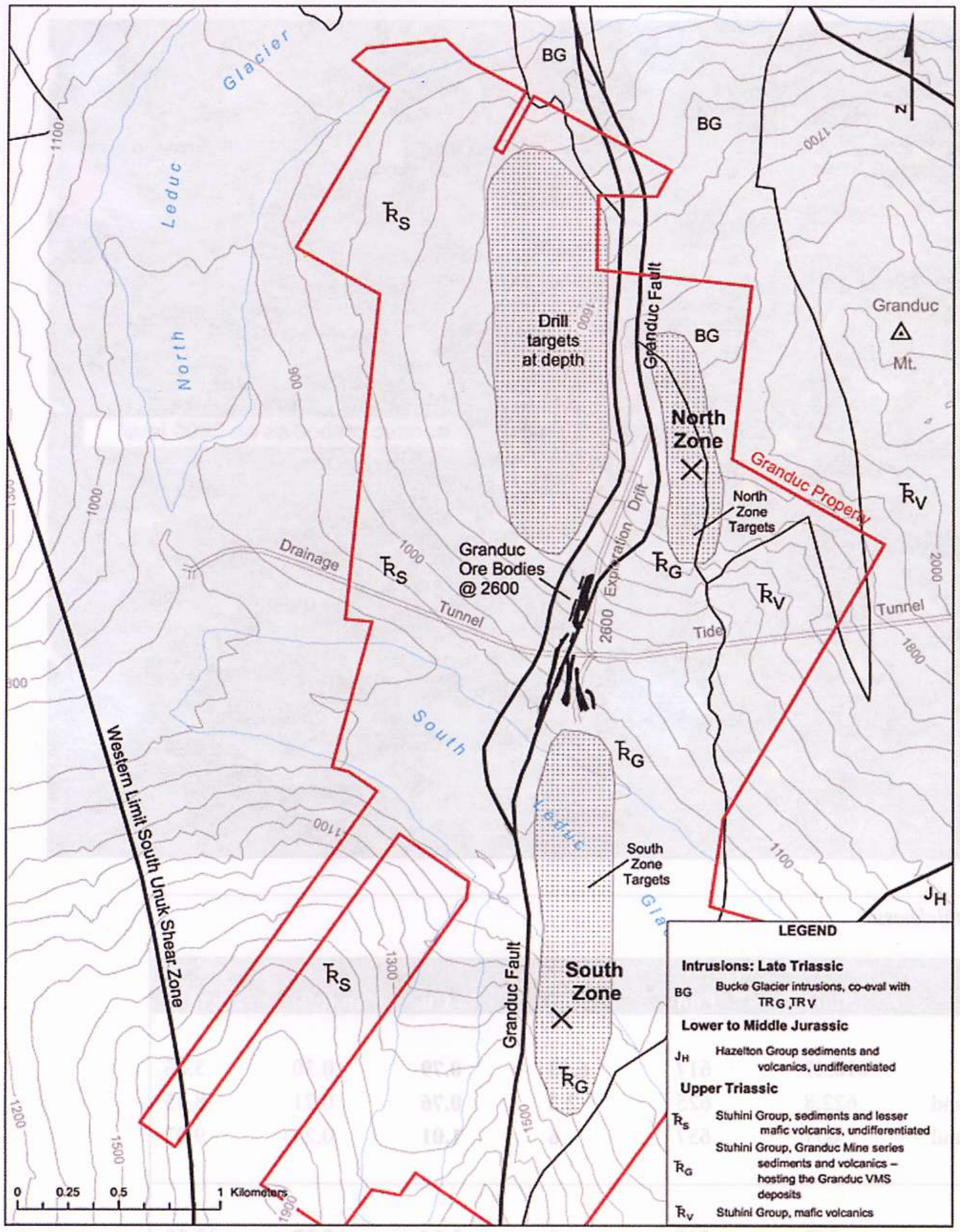
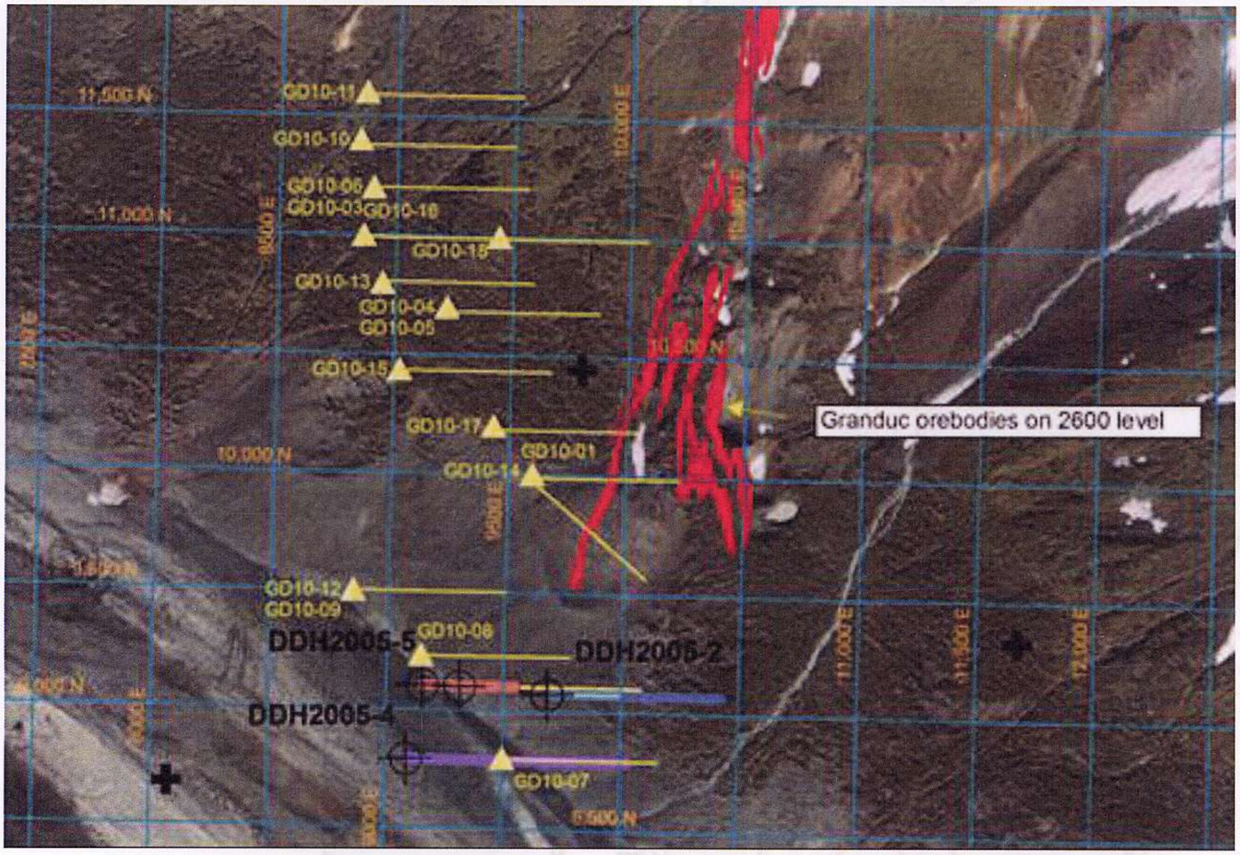


Fig. 3. Geology of the Granduc deposit. Modified from Lewis (1994).

For the period from August 2010 to October, 2010, the company completed 8,223 metres of diamond drilling in 18 holes. The objective of the drill program was to test the down dip extent of the historical deposit as well as replicate certain Newmont and Esso drill results. This goal was achieved as all holes have encountered visible copper mineralization along a 1,000 metre strike. These initial results indicate that the historical in-situ Newmont and Esso resource estimates appear to be reliable; the larger objective is to continue this process and target the balance of the down dip mineralization and extend the strike to the south through a comprehensive drill campaign next field season.

MINERAL EXPLORATION ACTIVITIES (continued)



Note: all widths are downhole thickness

Section	Hole		Start	End	Width (m)	% Cu	Au (g/t)	Ag (g/t)
11,600 N	GD10-11		610.47	617	**6.53**	**0.79**	0.30	5.66
		and	622.8	625	**2.2**	**0.76**	0.21	8.45
		and	651	657	**6**	**1.01**	0.24	9.02
11,400 N	GD10-10		562	567	**5**	**2.14**	0.27	12.30
		and	597	599	**2**	**1.44**	0.11	4.20
11,200 N	GD10-03		488.5	508.65	**20.15**	**1.38**	0.16	12.90
		inc	488.5	491.5	**3**	**2.54**	0.43	14.40
		and	499.5	504.5	**5**	**1.37**	0.13	21.10
11,200 N	GD10-06		587.55	636.5	**48.95**	**0.46**	0.12	5.30
		inc	589.55	592.55	**3**	**1.47**	0.14	7.70

11,000 N	GD10-18		383	390	**7**	**1.53**	0.17	21.10
11,000 N	GD10-16		499	501.2	**2.3**	**0.75**	0.13	5.77
10,800 N	GD10-13		485	495	**10**	**1.09**	0.13	15.40
		inc	491.3	493.5	**2.2**	**1.71**	0.28	23.50
10,700 N	GD10-04		341	349	**8**	**1.32**	0.13	7.40
10,700 N	GD10-05		354.95	368	**14.5**	**1.26**	0.15	12.10
		inc	360.5	366.5	**6**	**1.62**	0.17	14.70
10,400 N	GD10-15		365.5	381.5	**16**	**1.38**	0.19	8.71
		inc	373.5	376.5	**3**	**2.05**	0.32	11.91
		and	384.5	396.5	**12**	**0.77**	0.11	5.20
		inc	385.5	390.5	**5**	**1.42**	0.16	6.49
10,200 N	GD10-17		273	279	**6**	**1.20**	0.15	12.82
		and	287	296	**9**	**1.07**	0.24	11.60
		and	298	306	**8**	**1.27**	0.19	8.58
		and	310	322	**12**	**1.32**	0.28	15.00
		inc	311	316	**5**	**1.73**	0.30	17.42
		and	334	348	**14**	**0.84**	0.17	9.60
		inc	338	341	**3**	**1.19**	0.35	16.37
		and	351	360	**9**	**0.77**	0.18	8.07
		inc	353	357	**4**	**1.08**	0.20	9.88
10,000 N	GD10-01		126.72	136.5	**9.78**	**2.49**	0.21	5.28
		inc	131.2	136.5	**5.3**	**3.00**	0.24	6.45
		and	224.2	227.75	**3.55**	**1.82**	0.15	21.11
			256	276.5	**20.5**	**1.38**	0.13	14.60
		inc	256	263	**7**	**1.71**	0.17	14.70
		inc	256	261	**5**	**1.90**	0.20	22.00
		inc	267.5	274.5	**7**	**1.79**	0.14	14.60
10,000 N	GD10-02		158.3	175.1	**16.75**	**2.15**	0.17	6.80
		inc	158.3	163.3	**5**	**3.27**	0.22	8.80
		and	277.3	294.7	**17.4**	**1.73**	0.23	21.69
		inc	287.2	291.2	**4**	**3.26**	0.50	21.50
		and	312.1	321.5	**8.5**	**1.45**	0.16	9.30

10,000 N	GD10-14		213	223	**10**	**1.21**	0.19	14.16
		and	229	240	**11**	**1.02**	0.16	10.09
		and	268	279	**11**	**1.23**	0.28	22.56
		inc	271	274	**3**	**1.82**	0.39	23.30
		and	286	294.5	**8.5**	**1.12**	0.22	13.89
		and	309.75	334.45	**24.7**	**0.88**	0.14	11.55
		inc	323.7	329.4	**5.7**	**1.29**	0.21	14.80
		and	349.8	361.9	**12.1**	**1.56**	0.18	7.49
		inc	349.8	353.3	**3.5**	**2.04**	0.31	15.00
		and	358.5	361.9	**3.4**	**2.36**	0.35	18.32
9,500 N	GD10-09		205.7	227.7	**17**	**0.99**	0.14	5.20
		inc	205.7	209.7	**4**	**1.70**	0.36	9.00
		and	349.5	363.5	**15**	**1.83**	0.18	14.60
		inc	360.5	363.5	**3**	**3.36**	0.29	17.40
9,500 N	GD10-12		335	358.5	**23.5**	**1.36**	0.14	12.80
		inc	343	348.25	**5.25**	**2.88**	0.30	17.00
		and	393	426.48	**33.48**	**1.45**	0.24	16.50
		inc	396	411	**15**	**1.73**	0.24	20.50
		and	417	426.48	**9.48**	**1.75**	0.31	19.20
9,200 N	GD10-08		264.18	297.03	**32.85**	**0.82**	0.09	7.90
		inc	289	297.03	**8.03**	**1.54**	0.11	13.00
		inc	292	296	**4**	**1.88**	0.11	13.30
8,700 N	GD10-07		137	156.58	**15.78**	**0.81**	0.09	4.90
		and	154	156.58	**2.58**	**1.20**	0.11	4.40

The development strategy at Granduc is focused on generating a NI 43-101 resource estimate based on 2010 drilling results as well as historic drilling and then moving to commission a Preliminary Economic Assessment. As of January 3, 2011, the resource estimate is ongoing and is anticipated to be completed 1st quarter 2011. In tandem, management is preparing a detailed exploration and mine rehabilitation plan that will focus on the balance of targets not yet drilled down dip and along strike. This will entail the partial rehabilitation of the 17 km long tunnel connecting the Granduc underground workings with the former mill site and parts of the mine infrastructure, including ramps and exploration drifts originally developed by Newmont and Esso. This development strategy is already underway and will be implemented starting in the spring of 2011. During the 2010 drilling program, SRK Consulting from Vancouver B. C. was commissioned to undertake the preliminary Economic Assessment as well as review all underground plans and sections towards rehabilitating the mine infrastructure and proceeding with underground exploration.

MINERAL EXPLORATION ACTIVITIES (continued)

The Elmtree Gold Project, New Brunswick, Canada

Overview

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

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

Exploration Program

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

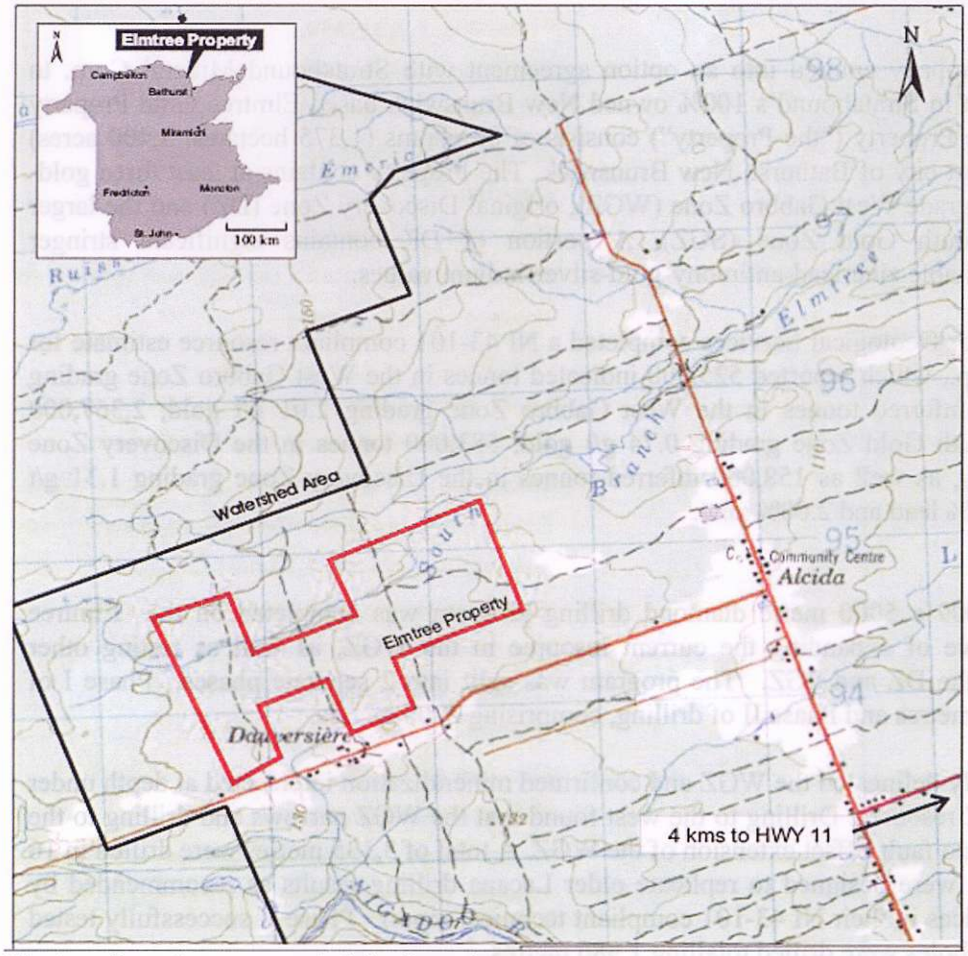
Phase I drilling successfully delineated the WGZ and confirmed mineralization intersected at depth under the main core of the WGZ resource. Drilling to the west found that the WGZ narrows and drilling to the east confirms that there is no fault-offset extension of the WGZ. A total of 3,135 metres were drilled in 16 holes two of the 16 holes were designed to replicate older Lacana drilling results as recommended by Mercator Geological Services in their NI 43-101 compliant technical report. Phase II successfully tested the SGZ and the DZ. Ten holes were drilled totalling 1,986 metres.

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 concenrratc 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 January 3, 2011, the feasibility study is ongoing and a preliminary report is anticipated by mid to late January, 2011. As of January 3, 2011, the comprehensive environmental assessment is ongoing and is anticipated to be completed by 3rd quarter 2011.

In August, 2010, the company completed a 4000 m infill diamond drill program in 29 holes on the WGZ towards moving the resources from inferred to indicated for the feasibility study. All Samples were submitted to AGAT Laboratories in Mississauga ON for analysis. All drilling results confirmed the presence of gold in the WGZ (see press release Dec 21, 2010)

MINERAL EXPLORATION ACTIVITIES (continued)



Elmtree: Location map and claim boundary

Horseshoe Property, British Columbia, Canada

On November 2, 2009, Castle entered into an agreement to acquire a 100% interest in the Horseshoe Claim Group in the prolific Stewart Mining Camp in northwest British Columbia, Canada. Castle will earn a 100% undivided interest in the Horseshoe Property over a 3 year period by spending $1.5 million on exploration and drilling expenses. Castle will pay the vendor a total of $300,000 and will issue 360,000 shares of the Company over the term of the option, subject to exchange approval.

The Horseshoe Property has numerous promising precious metal surface showings including the High-Grade Vein showing, which has received most of the historic work in the area. According to a Minister of Mines Annual Report in 1926, a sample of quartz vein material assayed 86.2 g/t gold and 123 g/t silver. During a property visit in October, 2009, 3 grab samples were collected along the High-Grade Vein, which returned values of 20.7 g/t Au and 68.3 g/t Ag; 2.23 g/t Au; and 0.9 g/t Au. The 4th grab sample was collected from a separate showing with a visible surface strike length of over 100 metres averaging 7+ metres in width and returned values of 2.0% Cu, 156 g/t Ag and 1.04 g/t Au.

MINERAL EXPLORATION ACTIVITIES (continued)

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

On January 25, 2010, Castle submitted for assessment work covering the property visit on the Horseshoe claims to keep the group in good standing until Feb 28, 2010. As of August 2, 2010, the property has sufficient assessment credits in place to keep the property in good standings for almost 1 year

The Murphy Claims, New Brunswick, Canada

On September 15, 2009, Castle entered into an option agreement with George Murphy to earn a 100% interest in 76 contiguous claims (the "Murphy claims") tied onto the eastern boundary of the Elmtree claims. The agreement calls for a total payment of $30,000 and 200,000 shares of Castle along with a commitment to spend $200,000 in drilling and exploration activities over 3 years. One hole from Phase II of the Elmtree drilling was drilled on the Murphy claims in order to test for a possible extension to the South Gold Zone. There is only one intersection of note and averages 1.2 g/t Au across 2 m (down hole thickness). This is interpreted to be along strike to the east of the SGZ. As of August 2, 2010, no further work has been performed on the Murphy claims

Management terminated the option agreements and declined to fulfill the $200,000 work commitment by September 15, 2012 and $10,000 cash payments due by September 15, 2010. As a result, the claims reverted to the original owners. As of September 30, 2010, the Company wrote down $20,331 relating to these claims, which consisted of $16,250 of acquisition costs and $4,081 of deferred expenditures.

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 Veta del Alto veins. The San Ramon mine workings include the San Ramon and Azul shafts, each approximately 95 meters deep with four subsurface levels. Historical reports indicate that approximately 20,000 tons of ore grading 1.0 to 2.0 grams per ton (g/t) gold and 400 to 600 g/t of silver were extracted at San Ramon. The Azul shaft was refurbished in 2003 and was used to dewater the mine workings for mapping and sampling purposes.

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

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

MINERAL EXPLORATION ACTIVITIES (continued)

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 elaim 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. MAG Sliver submitted a progress report to the Company on July 15, 2010 regarding their exploration activities on the Property as of December 15, 2009.

A regional geological mapping program was completed over 312 hectares. All previously drilled cores was relogged and selectively sampled on the Se Los Dije vein structure. In addition, 7 holes totalling 2,638 m were drilled and 245 samples were assayed on the Property close to the SE side of the claims along the "El Pajaro" vein structure. According to the report, the Se Los Dije vein is the most promising target. This vein was recommended for further exploration and diamond drilling The El Pajaro, Tecoloters and La Antena veins were reported as secondary targets.

INTEREST IN MINERAL PROPERTIES

During the year, the Company capitalized a total of $5,336,614 in in interest in mineral properties, net of $380,100 British Columbia mining exploration tax credit ("METC"). The Company is eligible to claim 20% of the amount by which the total qualified mining exploration expenses incurred in the tax year exceed the total assistance received or receivable for these expenses.

The capitalized cost for each property is detail in the following table.

The San Ramon Claim Group, Silver Project, Mexico	$ 448,000
The Elmtree Gold Project, New Brunswick, Canada	
Acquisition Costs	$ 165,945
Exploration Expenditure	
Assaying	88,486
Drilling	781,836
Field labour	89,356
Fuel and transportation	6,882
General expense	52,610
Mining duties, permits, fees and taxes	5,000
Professional and consulting fees	475,774
Site support and supplies	53,124
Travel and accommodations	29,205
Balance at September 30, 2010	$ 1,748,218
The Murphy Claims, New Brunswick, Canada	
Acquisition Costs	$ 16,250
Exploration Expenditure	
Assaying	577
Professional and consulting fees	3,504
Write-down	(20,331)
Balance at September 30, 2010	$ -
The Horseshoe Property, British Columbia, Canada	
Acquisition costs	$ 82,674
Exploration Expenditure	
Assaying	473
General expense	18
Mining duties, permits, fees	3,156
Professional and consulting fees	12,753
Site support and supplies	3,715
Travel and accommodations	3, 145
Balance at September 30, 2010	$ 105,934
The Granduc Project, British Columbia, Canada	
Acquisition costs	$ 2,598,000
Exploration Expenditure	
Assaying	14,516
Drilling	581,294
Equipment and rental	17,640
Field labour	295,179
Fuel and transportation	664,402
General expense	6,151
Professional and consulting fees	175,364
Site support and supplies	79,209
Travel and accommodations	83,174
Less: refundable exploration tax credit	(380,100)
Balance at September 30, 2010	$ 4,134,829
Total Interest in mineral properties	**$ 6,436,981**

SELECTED HISTORICAL FINANCIAL DATA

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

	2010	2009	2008	2007	2006
For the Year Ended September 30,	**$**	**$**	**$**	**$**	**$**
Interest income	-	19,134	29,920	27,500	7,419
Net loss and comprehensive loss for the year	1,083,344	4,637,278	1,181,296	695,822	92,354
Loss per share (basic & diluted)	0.03	0.17	0.04	0.06	0.03
Interest in mineral properties	6,436,981	1,100,367	4,094,337	3,619,612	84,450
Total assets	7,641,260	1,377,314	6,023,858	4,596,507	311,665
Total long-term liabilities	1,783,590	-	81,000	81,000	-
Shareholders' equity	3,371,619	1,190,961	5,839,739	4,215,159	266,644

RESULTS OF OPERATIONS AND CASH FLOWS

Revenue

The Company is in the development stage and therefore did not have revenues from operations. Interest income for the year ended September 30, 2010 was $Nil (September 30, 2009 - $19,134).

Net loss

The Company recorded a loss of $1,083,344 with basic and diluted loss per share of $0.03 for the year ended September 30, 2010 reflecting a decrease of $3,553,934 when compared with the same period in 2009. The Company wrote down $20,331 (September 30, 2009 - $3,688,185) in interest in mineral properties and deferred exploration expenditure in the year. Hence, net loss in prior period is higher when compared to the current year. Furthermore, net loss is reduced by $77,000 (September 30, 2009 - $81,000) future income tax recovery. The future income tax recovery relates to the $310,500 flow-through shares issued in connection with the July 19, 2010 private placement. As the flow-through triggers the "more likely than not" test for future realization of some of these assets to be met (to the amount of the expected future income tax liability), certain assets can be valued at the date the flow-through funds are raised in anticipation of future renunciation.

Expenses

The Company recorded $1,140,013 in total expenses for the year ended September 30, 2010 as compared to $1,049,227 in the comparative year. The reasons for the increase in expense are as follows:

- Management and consulting fees increased to $360,479 as cempared to $289,500 for the year ended September 30, 2009; this is attributable to the increase in management team. The Company had hired a new President and COO.

RESULTS OF OPERATIONS AND CASH FLOWS (continued)

- Stock based compensation expense increased to $445,800 as compared to $60,000 for the year ended September 30, 2009. During the year, the Company granted 2,040,000 stock options to directors, officers and consultants. The options were vested immediately therefore, the full value of stock-based compensation expense was charged.

Cash Flows

Operating Activities

Operating activities used $1,105,921 of cash flows in the year, representing an increase of $440,752 compared to the same period in 2009. This increase in 2010 compared to 2009 was mainly due to changes in non-cash working capital. The Company has $766,055 tied up in amounts receivable, this consisted of $332,205 (2009 - $37,872) in GST refunds, $380,100 (2009 - $Nil) in refundable exploration tax credits, and $53,750 (2009 - $Nil) related to stock options exercised.

Investing Activities and Financing Activities

During the year, our investing activities used cash of approximately $3,470,379, primarily driven by the acquisition of mineral properties and deferred exploration expenditures. For the year ended September 30, 2010, the Company paid approximately $2,661,400 in acquisition costs (net of share issues on property acquisition, valued at $69,200) and incurred $805,529 in deferred exploration expenditures. During the year, we raised $2,621,940 (gross of $188,480 share issue costs) in equity financing; we received $1,980,000 in loan proceeds, $100,000 in shareholder loans, $53,750 on the exercise of stock options, $12,540 on the exercise of Brokers' warrants and $10,450 on the exercise of warrants. Subsequent to year-end, we raised a further $10,320,000 gross proceeds in equity financing.

Fourth Quarter Results

The Company wrote-down $20,331 of mineral properties and deferred exploration expenditures. Net loss and comprehensive loss for the period was $367,989 (2009 - $4,121,114). The decrease in net loss and comprehensive loss is mainly attributable to the write-down of San Ramon Property in the comparative period.

Balance Sheet	Year-end September 30, 2010	Year-end September 30, 2009
Current Assets	$ 968,442	$ 270,643
Current Liabilities	2,485,851	186,353
Working Capital (Deficiency)	(1,517,409)	84,290
Total Assets	7,641,260	1,377,314
Shareholders' Equity	3,371,619	1,190,961
Deficit	7,464,079	6,380,735

SUMMARY OF QUARTERLY RESULTS

The following table sets out key financial data (unaudited) on a quarter by quarter basis for the last eight quarters to the end of September 30, 2010.

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

Quarter ended	September 30, 2009 $	June 30, 2009 $	March 31, 2009 $	December 31, 2008 $
Net loss for the period	4,121,114	266,649	160,130	149,385
Basic and diluted loss per share	0.15	0.01	0.01	0.01
Expenses	453,929	267,320	168,233	159,745
Mineral properties	1,100,367	4,349,487	4,198,145	4,162,210
Write-down of mineral properties	3,688,185	-	-	-
Working capital (deficiency)	84,290	1,060,241	1,405,642	1,601,117
Stock-based compensation	-	60,000	-	-
Interest income	-	671	8,103	10,360

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, 2010, the Company had cash of $101,483 and working capital deficiency of $1,517,409. The Company has 1,783,590 long-term debt obligations that impact liquidity or future cash flows. Subsequent to year-end, the Company raised $10,320,000 in equity financing through a private placement.

The Company has been successful in accessing the equity market, while there is no guarantee that this will continue to be available, management has no reason to expect that this capability will diminish in the near term.

FINANCIAL MEASURES

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

	September 30, 2010	September 30, 2009
Current Ratio	0.39	1.45
Working Capital (Deficiency)	(1,517,409)	84,290
Cash	101,483	125,202

CAPITAL RESOURCES

The following is a summary of the Company's outstanding share, warrant and stock option data as of September 30, 2010 and January 18, 2011.

Common shares
At September 30, 2010, the Company had issued and outstanding 47,144,937 common shares (September 30, 2009 - 26,934,521). On October 7, 2010, the Company closed a brokered private placement comprised of 31,012,500 units and 1,100,000 flow-through shares. On October 8, 2010, the Company issued 210,000 common shares on the exercise of 210,000 warrants issued in connection with October 16, 2009 financing. The Company made a share payment of 2,750,000 on the acquisition of a 100% interest in the Granduc Property and 120,000 share payment on the Horseshoe Property. On December 9, 2010, the Company issued 208,333 common shares on the exercise of 208,333 warrants issued in connection with October 16, 2009 financing. On November 26, 2010, the Company issued 5,550 common shares on the exercise of 5,550 finder's warrants issued in connection with July 16, 2010 financing. On December 17, 2010, the Company issued 50,000 common shares as advance royalty payment on the Granduc Property. As of January 18, 2011, the Company has a total 82,601,320 issued and outstanding common shares

Stock options
At September 30, 2010, a total of 4,165,000 stock options are issued and outstanding with expiry dates ranging from March 28, 2012 through to September 9, 2015. The weighted average exercise price for all stock options is $0.16. All stock options entitle the holder to purchase common shares of the Company. On October 18, 2010, the Company granted 3,230,000 additional stock options. As of January 18, 2011, the Company has a total of 7,395,000 issued and outstanding stock options.

Warrants
At September 30, 2010, a total of 13,144,299 warrants and compensation warrants were outstanding, with each warrant entitling the holder to purchase one common share of the Company with expiry dates ranging from April 15, 2011 through to July 14, 2015. As of January 18, 2011, the Company has 33,175,699 issued and outstanding warrants, including 300,000 standby warrants and 3,600,000 draw down warrants issued in connection with $2.2 million debt financing.

OUTLOOK AND CAPITAL REQUIREMENTS

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

RELATED PARTIES TRANSACTIONS

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

The Company rents office space from a corporation controlled by a director of the Company. During 2010, rent of approximately $37,387 (2009 - $34,667) charged by this corporation was included in office and general expenses.

During 2010, the Company incurred consulting fees and management fees of approximately $382,309 (2009 - $262,500) paid to certain directors and officers of the Company.

During 2010, in directors and officers purchased 546,666 units in the private placement dated October 16, 2009. Two family members of a director of the Company subscribed for 550,000 common shares in the private placement closed March 29, 2010.

TRENDS

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimated undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. As at September 30, 2010 and 2009, management has determined that there are no material asset retirement obligations.

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Flow-through financing
The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce capital stock. The Company indemnifies the subscribers of flow-through shares from certain tax related amounts that may become payable in connection with the flow-through shares. As at September 30, 2010, the Company has met its expenditure requirements.

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

Accounting changes

Financial instruments
Effective October 1, 2009, the Company adopted CICA Handbook Sections 3862 and 3863 regarding Financial Instruments. Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and

SIGNIFICANT ACCOUNTING POLICIES (continued)

carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 11.

Recent accounting pronouncements

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year end beginning September 30, 2011.

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

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

- Review and Assessment
- Design
- Implementation

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Phase 1: Review and Assessment Phase

The objective of this phase is to identify the required changes to our accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the Design and Implementation phases.
Phase 1 involves:

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

Phase 2: Design Phase

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

Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders

Phase 3: Implementation Phase

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

Progress towards Completion of the Company's IFRS Changeover Plan

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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

USE OF FINANCIAL INSTRUMENTS

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

COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $1,182,000 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 $465,750, due within one year.

The Company is subject to various leases commitments and are committed to expenditures of $77,048 in fiscal year 2011 and $31,000 in fiscal year 2012.

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

SUBSEQUENT EVENTS

Private Placement

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

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

SUBSEQUENT EVENTS (continued)

Granduc Copper Mine ("Granduc Project")

On October 15, 2010, the Company acquired a 100% interest in the Granduc Project. The acquisition supersedes the option agreement dated July 16, 2010 (See Note 5). Pursuant to the agreement, the Company will pay Bell Copper an additional $2,000,000 and issue an additional 2,750,000 common shares of the Company for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

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.

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.

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

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

RISKS AND UNCERTAINTIES (continued)

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 up on developing and commercially mining an economic deposit of minerals, which itself is subject to numerous risk factors. Exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time of which even a combination of careful valuation, experience and knowledge of management may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Company will result in profitable commercial mining operations. The profitability of the Company's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Substantial expenditures would be required to establish reserves sufficient to commercially mine mineral deposits on the Company's properties and to construct complete and install mining and processing facilities in those properties that are actually mined and developed.

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

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

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

RISKS AND UNCERTAINTIES (continued)

Capital Investment

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

Conflicts of Interest

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report 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, 2010 AND 2009

CASTLE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

INDEX	**PAGE**

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
Castle Resources Inc.

We have audited the consolidated balance sheets of Castle Resources Inc. as at September 30, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 17, 2010

2005 Sheppard Avenue East, Suite 300, Toronto, Ontario, Canada, M2J 5B4
Telephone: (416) 496-1234 – Fax: (416) 496-0125 – E-Mail: info@mhc-ca.com – Website: www.mhc-ca.com

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

	2010	2009
ASSETS		
Current		
Cash	$ 101,483	$ 125,202
Amounts receivable (Note 3)	766,055	127,121
Prepaid expenses	15,904	18,320
Future income taxes (Note 16)	85,000	-
	968,442	270,643
Long-term		
Prepaid expenses	98,475	-
Deferred transaction costs (Note 18)	37,619	-
Long-term receivables (Note 3)	92,205	-
Equipment (Note 4)	7,538	6,304
Interest in mineral properties (Note 5)	6,436,981	1,100,367
	$ 7,641,260	$ 1,377,314
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 2,385,851	$ 186,353
Due to shareholder (Note 11)	100,000	-
	2,485,851	186,353
Long-term		
Loan payable (Note 6)	1,783,590	-
	4,269,441	186,353
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	8,493,576	6,470,696
Contributed surplus (Note 10)	1,503,000	509,647
Warrants (Note 8)	839,322	591,353
Deficit	(7,464,079)	(6,380,735)
	3,371,619	1,190,961
	$ 7,641,060	$ 1,377,314

COMMITMENTS AND CONTINGENCIES (Notes 1, 5, 6, 11 and 15)
SUBSEQUENT EVENTS (Notes 5, 11 and 18)

APPROVED ON BEHALF OF THE BOARD:

Signed "STEPHEN SHEFSKY", Director

Signed "MARK BRENNAN", Director

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.

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

	2010	2009
Expenses		
Stock-based compensation (Notes 9 and 10))	$ 445,800	$ 60,000
Professional fees	109,083	236,980
Management and consulting fees (Note 12)	360,479	289,500
Transfer agent and listing fee	30,731	22,053
Office and general (Note 12)	143,915	162,525
Interest and financing fees (Note 6)	47,790	-
Shareholder relations (Note 8)	-	275,525
Amortization	2,215	2,644
	1,140,013	1,049,227
Loss before the undernoted	(1,140,013)	(1,049,227)
Interest income	-	19,134
Write-down of interest in mineral properties (Note 5)	(20,331)	(3,688,185)
Net loss and comprehensive loss before income taxes	(1,160,344)	(4,718,278)
Future income taxes (Note 16)	77,000	81,000
Net loss and comprehensive loss for the year	(1,083,344)	(4,637,278)
Deficit, beginning of year	(6,380,735)	(1,743,457)
Deficit, end of year	$ (7,464,079)	$ (6,380,735)
Basic and diluted loss per share	(0.03)	(0.17)
Weighted average common shares outstanding - basic and diluted	36,573,089	26,763,425

See accompanying notes to the consolidated financial statements.

CASTLE RESOURCES INC.

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

	2010	2009
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES:		
Net loss for the year	$ (1,083,344)	$ (4,637,278)
Charges not affecting cash:		
Stock-based compensation	445,800	60,000
Amortization	2,215	2,644
Foreign exchange	-	-
Warrant extension valuation	-	272,000
Future income taxes	(77,000)	(81,000)
Write-down of interest in mineral properties	20,331	3,688,185
Debt facility costs	34,590	-
Net change in non-cash working capital	(448,513)	30,280
	(1,105,921)	(665,169)
INVESTING ACTIVITIES:		
Interest in mineral properties	(3,466,929)	(611,576)
Equipment acquisitions	(3,450)	(513)
	(3,470,379)	(612,089)
FINANCING ACTIVITIES:		
Shareholder loan	100,000	-
Loan payable	1,980,000	-
Deferred transaction costs	(37,619)	-
Broker warrants exercised	12,540	-
Warrants exercised	10,450	-
Stock options exercised	53,750	-
Private placements	2,621,940	-
Share issue costs	(188,480)	-
	4,552,581	-
CHANGE IN CASH:	(23,719)	(1,277,258)
Cash at beginning of year	125,202	1,402,460
Cash at end of year	$ 101,483	$ 125,202

Supplemental information:

	2010	2009
Common shares issued for interest in mineral property	$ 69,200	$ 17,500
Change in accrued mineral property expenditures	$ 2,011,496	$ (51,140)
Stock-based compensation charged to mineral properties	$ -	$ 14,000
Warrant granted related to debt facility (Note 6)	$ 231,000	$ -
Broker warrants	$ 49,600	$ -
Common shares issued for broker compensation	$ 55,575	$ -

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

a) Basis of consolidation

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

All material intercompany balances and transactions have been eliminated.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

b) Interest in mineral properties

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

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

c) Equipment

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

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

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

d) Measurement uncertainty and use of estimates

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

e) Asset retirement obligations

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

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimated undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. As at September 30, 2010 and 2009, management has determined that there are no material asset retirement obligations.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

f) Income taxes

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

g) Stock-based compensation

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

h) Loss per share

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

i) Foreign currency translation

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

j) Flow-through financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce capital stock. The Company indemnifies the subscribers of flow-through shares from certain tax related amounts that may become payable in connection with the flow-through shares. As at September 30, 2010, the Company has met its expenditure requirements.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

k) Financial instruments

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

l) Comparative figures

Certain comparative figures were reclassified to conform with presentation adopted in the current year.

m) Accounting changes

Financial instruments
Effective October 1, 2009, the Company adopted CICA Handbook Sections 3862 and 3863 regarding Financial Instruments. Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 13.

n) Recent accounting pronouncements

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

o) Recent accounting pronouncements (continued)

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements and applies to idterim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards and expects to adopt the standards effective October 1, 2010.

3. AMOUNTS RECEIVABLE

Included in amounts receivable at September 30, 2010 is $332,205 (2009 - $37,872) of sales taxes recoverable, $380,100 (2009 - $Nil) of refundable exploration tax credits, and $53,750 (2009 - $Nil) related to stock options exercised. IVA recoverable (Mexican value added tax) of $92,205 (2009 - $89,249) has been reclassified as a long-term receivable at September 30, 2010.

4. EQUIPMENT

September 30, 2010

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

September 30, 2009

	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 4,765	$ 2,031	$ 2,734
Computer equipment	7,447	4,134	3,313
Computer software	7,127	6,870	257
	$ 19,339	$ 13,035	$ 6,304

5. INTEREST IN MINERAL PROPERTIES

The San Ramon Claim Group, Silver Project, Mexico		
Balance at September 30, 2008	$	4,094,337
Capitalized costs		126,454
Option payment received		(84,606)
Write-down		(3,688,185)
Balance at September 30, 2009	$	448,000
Capitalized costs		-
Balance at September 30, 2010	$	448,000

The Elmtree Gold Project, New Brunswick, Canada		
Balance at September 30, 2008	$	-
Acquisition costs		115,945
Capitalized costs		519,122
Balance at September 30, 2009	$	635,067
Acquisition costs		50,000
Capitalized costs		1,063,151
Balance at September 30, 2010	$	1,748,218

The Murphy Claims, New Brunswick, Canada		
Balance at September 30, 2008	$	-
Acquisition costs		16,250
Capitalized costs		1,050
Balance at September 30, 2009	$	17,300
Capitalized costs		3,031
Write-down		(20,331)
Balance at September 30, 2010	$	-

The Horseshoe Claims, British Columbia, Canada		
Balance at September 30, 2009	$	-
Acquisition costs		82,674
Capitalized costs		23,260
Balance at September 30, 2010	$	105,934

Granduc Claims, British Columbia, Canada		
Balance at September 30, 2009	$	-
Acquisition costs		2,598,000
Capitalized costs		1,916,929
Less: refundable exploration tax credit (Note 3)		(380,100)
Balance at September 30, 2010	$	4,134,829

Total interest in mineral properties, September 30, 2010	**$**	**6,436,981**

5. INTEREST IN MINERAL PROPERTIES (continued)

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.

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.

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

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

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

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

5. INTEREST IN MINERAL PROPERTIES (continued)

The Murphy Claims, New Brunswick, Canada

On September 15, 2009, the Company entered into an option agreement to acquire up to a 100% interest in the Murphy Claims property, located in New Brunswick.

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

(a) Payment of $10,000 (paid) in cash and issuance 50,000 common shares upon execution of the option agreement (issued in 2009 with a value of $5,500 based on the quoted market value of the Company's shares).
(b) Complete a minimum of $200,000 of exploration and drilling activities on or prior to September 15, 2012.
(c) Payment of $10,000 in cash and issuance of 50,000 common shares on or prior to September 15, 2010.
(d) Payment of $10,000 in cash and issuance of 100,000 common shares on or prior to September 15, 2011.

The Murphy Claims are subject to a 2.0% net smelter royalty on all production of minerals, metals and precious or semi-precious stones, one half of which (i.e. 1% NSR) can be repurchased for $1,000,000.

Management terminated the option agreements and declined to fulfill the $200,000 work commitment by September 15, 2012 and $10,000 cash payments due by September 15, 2010. As a result, the claims reverted to the original owners. As of September 30, 2010, the Company wrote down $20,331 relating to these claims, which consisted of $16,250 of acquisition costs and $4,081 of deferred expenditures.

The Horseshoe Claims, British Columbia, Canada

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

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

(a) Payment of $60,000 in cash (paid) and issuance 120,000 common shares (issued in 2010 with a value of $19,200, based on the quoted market value of the Company's shares) upon execution of the option agreement.
(b) Complete a minimum of $1,500,000 of exploration and drilling activities on or prior to October 22, 2012 ($106,000 spent as at September 30, 2010).
(c) Payment of $80,000 in cash and issuance 120,000 common shares on or prior to October 22, 2010 (paid and issued subsequent to September 30, 2010).
(d) Payment of $160,000 in cash and issuance 120,000 common shares on or prior to October 22, 2011.

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

5. INTEREST IN MINERAL PROPERTIES (continued)

Granduc Claims ("Granduc Project")

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

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

i) Pay a $20,000 non-refundable deposit to Bell Cooper prior to the signing of the agreement (paid);

ii) Pay $2.5 million to Bell Copper (of which $500,000 will be reimbursed to the Company for exploration expenditures on the Granduc Mine, pursuant to the expenditure commitment in the first year) on or before the first anniversary date (paid);

iii) To incur a minimum of $3 million of expenditures in the first year (of which $500,000 is paid from Bell Cooper from the Company's option payment) (incurred) and a minimum of $2 million by the end of the second and third anniversaries of the agreement. A one-time catch up payment may be made if the Company does not spend the $2 million minimum in the previous year;

iv) Issue 250,000 shares to Bell Cooper on the signing of the agreement (issued in 2010 with a value of $50,000) and an additional 250,000 shares on the first, second and third anniversary date of the agreement.

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

i) all of the above obligations to earn a 51% interest have been made;

ii) at any time within 15 days after earning the 51% interest, the Company must notify Bell Cooper that it wishes to earn into the 80% interest;

iii) incur expenditures of not less than $18,000,000 on or before the sixth anniversary date of the agreement;

iv) issue 250,000 common shares on or before the fourth anniversary of the date of the agreement;

v) issue 250,000 common shares on or before the fifth anniversary of the date of the agreement.

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

i) the above obligations to earn the 80% interest have been met;

ii) at any time within 15 days after earning the 80% interest, the Company must notify Boll Cooper that it wishes to earn into the 90% interest;

iii) provide within one year of completion of a feasibility study, the financing required to bring the property into commercial production.

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

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

6. LOAN PAYABLE

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

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

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

The value of the warrants and the discount was recorded against the debenture to be accreted over the term of the debenture. During 2010, the Company recorded $34,590 interest, accretion expense and finance fees in the consolidated statements of operations and deficit.

7. CAPITAL STOCK

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued
Common shares

	Number \#	Amount $
Balance at September 30, 2008	26,684,521	6,828,196
Flow-through share tax effect	-	(375,000)
Shares issued on property acquisitions (Note 5)	250,000	17,500
Balance at September 30, 2009	26,934,521	6,470,696
Private placement (i)	4,003,666	480,440
Private placement – warrant valuation (i)	-	(105,193)
Share issue costs (i)	-	(17,291)
Private placement – broker warrant valuation (i)	-	(14,528)
Private placement (ii)	7,762,500	621,000
Share issuance as share issue costs (ii)	292,500	55,575
Private placement – finder's shares valuation (ii)	-	(55,575)
Share issue costs (ii)	-	(49,263)
Shares issued on property acquisitions (Note 5)	370,000	69,200
Broker warrants exercise	104,500	17,131
Private placement (iii)	7,400,000	1,520,500
Private placement – warrant valuation (iii)	-	(520,989)
Share issue costs (iii)	-	(89,263)
Warrants exercised	52,250	10,450
Warrants exercised – value reallocation	-	3,135
Stock options exercised	225,000	53,750
Stock options exercised – value reallocation	-	43,800
Balance at September 30, 2010	47,144,937	8,493,576

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

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

Refer to Note 8(iii) for additional details.

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

7. CAPITAL STOCK (continued)

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

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

Refer to Note 8(v) for additional details.

(iv) In connection with the private placement described in Note 7(iii), the Company raised $310,500 through the issuance of flow-through shares and is required to spend such funds on qualified exploration expenditures by December 31, 2011. The Company indemnified the subscribers of the flow-through shares for any tax related amounts that become payable by such subscribers if the Company does not meet its expenditure requirements. As at September 30, 2010, the Company has met this expenditure requirement.

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

Pursuant to an escrow agreement dated as of March 28, 2007 between the Company and Great Horn, 8,000,000 common shares issued to Great Horn in connection with the acquisition of an interest in mineral properties (Note 5) were deposited into escrow. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be released. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

As of September 30, 2010, there are no common shares held in escrow (September 30, 2009 – 3,020,850).

8. WARRANTS

	Number #	Amount $
Balance at September 30, 2008	4,715,527	361,353
Expiry of broker warrants (i)	(234,999)	(42,000)
Revaluation of warrants – extended term (ii)	-	272,000
Balance at September 30, 2009	4,480,528	591,353
Private placement (iii)	2,001,833	105,193
Warrant exercise (iii)	(52,250)	(3,135)
Warrant issue costs (iii)	-	(4,847)
Brokers' warrants (iii)	232,866	18,600
Share issue costs – Brokers' warrants (iii)	-	(4,072)
Brokers' warrants exercised (iii)	(104,500)	(8,360)
Warrants issued from broker warrant exercise (iii)	52,250	3,769
Expiry of broker warrants (iv)	(344,100)	(45,000)
Debt facility (Note 6)	3,900,000	231,000
Private placement (v)	6,725,000	520,989
Warrant issue costs (v)	-	(50,815)
Brokers' warrants (v)	389,100	31,000
Expiry of warrants	(4,136,428)	(546,353)
Balance at September 30, 2010	13,144,299	839,322

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

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

(iii) In connection with the October 16, 2009 private placement (Note 7(i)), 2,001,833 warrants were issued at an exercise price of $0.20 until April 15, 2011. The fair value of these warrants of $105,193 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 164%, a risk-free interest rate of 1.6% and an expected life of 18 months. During the year ended September 30, 2010, 52,250 of these warrants were exercised.

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

8. WARRANTS (continued)

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

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

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

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

8. WARRANTS (continued)

As of September 30, 2010, the following warrants were outstanding:

Value $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
100,346	1,949,583	1,949,583	0.20	April 15, 2011
6,168	128,366(i)	128,366	0.12	April 15, 2011
400,922	6,050,000	6,050,000	0.30	January 31, 2012
65,886	675,000	675,000	0.33	January 31, 2012
31,000	389,100(ii)	389,100	0.20	January 31, 2012
15,000	300,000(iii)	300,000	0.20	July 14, 2012
216,000	3,600,000(iv)	3,600,000	0.25	July 14, 2015
4,000	52,250(v)	52,250	0.20	December 21, 2011
839,322	13,144,299	13,144,299		

(i) These are finder's warrants issued in connection with October 16, 2009 private placement exercisable into units. Refer to Note 8(iii) for additional details.
(ii) These are finder's warrants issued in connection with July 19, 2010 private placement exercisable into units. Refer to Note 8(v) for additional details.
(iii) These are standby warrants issued in connection with debt facility (Note 6).
(iv) These are drawdown warrants issued in connection with debt facility (Note 6).
(v) These are warrants that were issued upon the exercise of 104,500 finder's warrants

9. STOCK-BASED COMPENSATION

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

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

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

9. STOCK-BASED COMPENSATION (continued)

The following table reflects the continuity of stock options during 2010 and 2009:

	September 30, 2010		September 30, 2009	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of year	2,350,000	0.17	1,205,000	0.28
Granted	2,040,000	0.23	1,500,000	0.10
Exercised	(225,000)	0.24	-	-
Expired	-	-	(355,000)	0.28
Balance, end of year	4,165,000	0.20	2,350,000	0.17

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

On July 1, 2010, the Company granted 500,000 stock options to a director of the Company. The stock options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.20 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.17 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 130%; risk free interest rate of 2.37% and; expected life of five years.

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

On June 1, 2009, the Company granted a total of 1,500,000 stock options. The options vested immediately. Each option allows the holder to purchase one share of the Company at an exercise price of $0.10 for a period of five years from the date of grant. The weighted average grant date fair value of these options was estimated at $0.04 each using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; free interest rate of 2.09% and; expected life of five years.

The weighted average grant date fair value of options granted during 2010 is $0.22 (2009 - $0.04).

9. STOCK-BASED COMPENSATION (continued)

As of September 30, 2010, the following stock options were outstanding:

Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
164,450	650,000	650,000	0.30	March 28, 2012
27,000	100,000	100,000	0.35	June 4, 2012
58,000	1,450,000	1,450,000	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
678,750	4,165,000	4,165,000		

10. CONTRIBUTED SURPLUS

	2010	2009
Balance at beginning of year	$ 509,647	$ 393,647
Expiry of broker warrants (Note 8)	45,000	42,000
Expiry of warrants (Note 8)	546,353	-
Exercise of stock options	(43,800)	-
Stock options granted	445,800	74,000
Balance at end of year	$ 1,503,000	$ 509,647

11. DUE TO SHAREHOLDER

The amounts due to shareholder are unsecured, non-interest bearing, due on demand and have no fixed terms of repayment. During 2010, a total of $100,000 was advanced and no amounts were repaid. The amounts were repaid subsequent to September 30, 2010.

12. RELATED PARTY TRANSACTIONS

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

The Company rents office space from a corporation controlled by a director of the Company. During 2010, rent of approximately $37,387 (2009 - $34,667) charged by this corporation was included in office and general expenses.

During 2010, the Company incurred consulting fees and management fees of approximately $382,309 (2009 - $262,500) paid to certain directors and officers of the Company.

During 2010, directors and officers purchased 546,666 units in the private placement dated October 16, 2009. Two family members of a director of the Company subscribed for 550,000 common shares in the private placement closed March 29, 2010.

See other related party transactions identified in Note 11.

13. FINANCIAL INSTRUMENTS

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

(a) Capital Risk

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

(b) Credit Risk

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

(c) Liquidity Risk

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

(d) Market Risk

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

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

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

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

13. FINANCIAL INSTRUMENTS (continued)

(e) Sensitivity analysis

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

- The Company does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk.
- Price risk is remote since the Company is not a producing entity.
- A change in interest rates of 1% would have a corresponding change in net loss for the year of approximately $1,000 based on the cash balance at September 30, 2010.

(f) Fair values

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

As at September 30, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same due to the short term nature of the instruments.

Fair value amounts represent fair value at a point in time and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and can be a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for fair values recognized on the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. Cash of $101,483 is considered to be Level one and is the only financial instrument measured at fair value for the Company at September 30, 2010, in accordance to the amendment to Handbook Section 3862.

14. CAPITAL MANAGEMENT

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

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

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

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

There were no significant changes in the Company's approach to capital management during the years ended September 30, 2010 and 2009, with exception to obtaining debt in the form of due to shareholder and loan payable. The Company is not subject to externally imposed capital requirements.

15. COMMITMENTS AND CONTINGENCIES

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to $1,182,000 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 $465,750, due within one year.

The Company is subject to various lease commitments and is committed to expenditures of $77,048 in fiscal year 2011 and $31,000 in fiscal year 2012.

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

16. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 30% (2009 - 34%) were:

	2010	2009
Net loss for the year before income taxes	$ 1,160,344	$ 4,718,278
Expected recoverable income taxes at statutory rates	345,000	1,581,000
Increase (decrease) resulting from:		
Stock-based compensation	(133,000)	(111,000)
Share issue costs	56,000	-
Difference in Canadian tax rates	(148,000)	(197,000)
Differences in Mexican and Canadian tax rates	-	(37,000)
Differences in Mexican tax rates	74,000	-
Other	(525,000)	(40,000)
Valuation allowance	408,000	(1,115,000)
Provision for income taxes	$ 77,000	$ 81,000

b) Future income tax balances

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

Future income tax assets (liabilities)	2010	2009
Non-capital losses	$ 334,000	$ 367,000
Resource properties	986,000	1,285,000
Share issue costs	70,000	61,000
Valuation allowance	(1,305,000)	(1,713,000)
	$ 85,000	$ -

16. INCOME TAXES (Continued)

b) Future income tax balances (Continued)

The Company has approximately $6,300,000 of Canadian exploration and development expenditures as at September 30, 2010 which under certain circumstances may be utilized to reduce the taxable income of future years. The Company also has tax pools in Mexico related to their property of approximately $4,000,000 that are not expected to expire.

The Company has approximately $1,336,000 of non-capital losses in Canada which under certain circumstances can be used to reduce the taxable income of future years. The Canadian losses expire in the following periods:

Year	Amount
	$
2012	3,000
2013	68,000
2026	53,000
2027	372,000
2028	527,000
2029	192,000
2030	121,000
	1,336,000

17. SEGMENTED INFORMATION

The Company considers its business to consist of two geographical segments, Canada and Mexico. Geographic segmentation of the Company's assets is as follows: Canada $7,385,464 (2009 - $1,124,336) and Mexico $255,796 (2009 - $252,978). Equipment is located in Canada. Interest in mineral properties are located in Canada and Mexico (See Note 5). All significant administrative expenses included in the statement of operations were incurred in Canada. The write-down of interest in mineral properties related to a property located in Canada (2009 – Mexico).

18. SUBSEQUENT EVENTS

Private Placement

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

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.

Included in deferred transaction costs is $37,619 of costs related to this private placement.

18. SUBSEQUENT EVENTS (continued)

Granduc Copper Mine ("Granduc Project")

On October 15, 2010, the Company acquired a 100% interest in the Granduc Project. The acquisition supersedes the option agreement dated July 16, 2010 (See Note 5). Pursuant to the agreement, the Company will pay Bell Copper an additional $2,000,000 and issue an additional 2,750,000 common shares of the Company for an aggregate acquisition price of $4,500,000 and 3,000,000 common shares of the Company.

CORPORATE INFORMATION

Directors

Stephen Shefsky*
Toronto, Ontario, Canada

Mark Brennan (Chairman)**
Toronto, Ontario, Canada

Anthony Croll*, **
Montreal, Quebec, Canada

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

Tim Mann **
Oakville, Ontario, Canada

Officers

Stephen Shefsky
Chief Executive Officer

Mike Sylvestre
President &
Chief Operating Officer

Lenny Foreht
V.P. Business Development

Eric Szustak C.A.
Chief Financial Officer

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

Offices

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Transfer Agent

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Website: www.cibcmellon.com

Auditors

McGovern, Hurley, Cunningham LLP
Toronto, Ontario

Canadian Legal Counsel

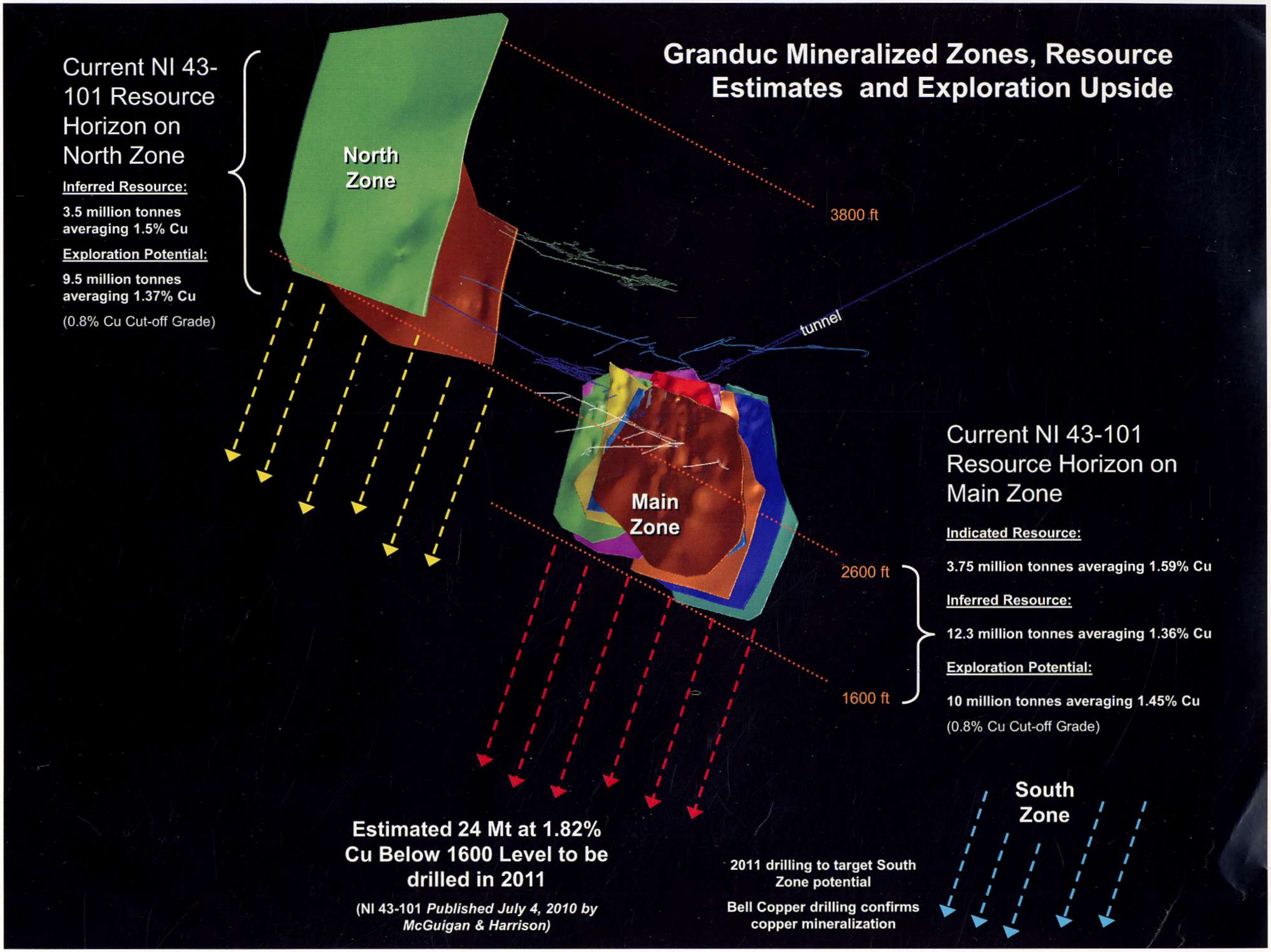
WeirFoulds LLP
Toronto, Ontario
Website: www.weirfoulds.com

Shares Traded

TSX Venture Exchange
Symbol CRI

Annual Meeting

March 22, 2011 at 4:00 p.m.
Castle Resources Inc.
Suite 800, 20 Victoria Street
Toronto, Ontario
M5C 2N8



Granduc Mineralized Zones, Resource Estimates and Exploration Upside
Current NI 43-101 Resource Horizon on North Zone
Inferred Resource:
3.5 million tonnes averaging 1.5% Cu
Exploration Potential:
9.5 million tonnes averaging 1.37% Cu
(0.8% Cu Cut-off Grade)
North Zone
3800 ft
tunnel
Main Zone
2600 ft
1600 ft
Current NI 43-101 Resource Horizon on Main Zone
Indicated Resource:
3.75 million tonnes averaging 1.59% Cu
Inferred Resource:
12.3 million tonnes averaging 1.36% Cu
Exploration Potential:
10 million tonnes averaging 1.45% Cu
(0.8% Cu Cut-off Grade)
Estimated 24 Mt at 1.82% Cu Below 1600 Level to be drilled in 2011
(NI 43-101 Published July 4, 2010 by McGuigan & Harrison)
2011 drilling to target South Zone potential
Bell Copper drilling confirms copper mineralization
South Zone

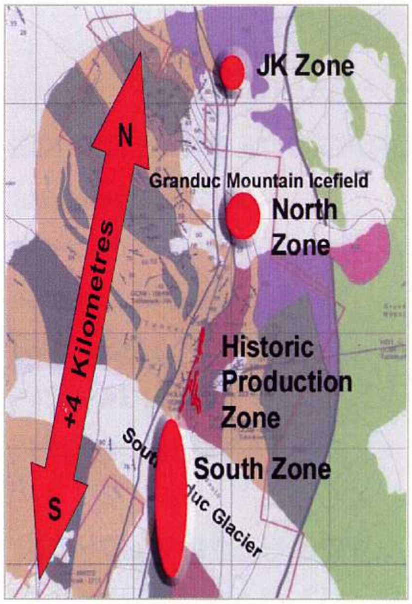
Castle Resources

Redeveloping the Granduc




Capital Structure

Symbol:	**CRI.V**
Share Price:	**$0.75**
Shares Issued:	**102 million**
Fully Diluted:	**142 million**
Market Cap:	**$75 million**
52 week hi/low:	**$0.80 - $0.08**
Cash:	**$17 million**



The Granduc Copper Project is a low risk, high grade, long life past producer restart in an excellent mining jurisdiction with significant exploration potential

Indicated Resource

Cut-off % Cu	Tonnage	Grade %	Contained Copper (lbs)
0.5	4,037,000	1.53	136,280
0.8	**3,743,000**	**1.58**	**130,550**
1.0	3,334,000	1.65	121,580
1.2	2,731,000	1.78	106,940
1.4	2,108,000	1.94	90,270

Inferred Resource

Cut-off % Cu	Tonnage	Grade %	Contained Copper (lbs)
0.5	17,693,000	1.29	503,410
0.8	**15,722,000**	**1.35**	**466,890**
1.0	13,074,000	1.42	409,840
1.2	9,136,000	1.56	313,820
1.4	5,837,000	1.75	225,140

Exploration potential estimated to contain an additional 17 to 23 million tonnes grading between 1.3 to 1.6% Cu

Past Producer Restart:

- Long track record of production
- 420 MM lbs Cu from 1971-1984
- Clean concentrate 29% Cu, Au/Ag credits
- Built & operated by Newmont and Esso Resources
- Brownfield site

Large Bluesky Potential:

- Multiple resource zones
- Over 4 km long strike identified
- Strong EM anomaly to the north

Excellent Jurisdiction:

- B.C. provincial process
- Low cost power supply
- Strong community support in Stewart B.C.
- Permitting underway

Straightforward Project:

- Rehab 17km tunnel (E$2 million, 3 months)
- New mill (5,000 tpd) Mine Rehab (E$200 million, 24 mths)

2011

Tunnel/Mine Rehab

30,000 m drill program

Complete PEA

Update NI 43-101

Begin Permitting

2012

Initiate Feasibility Study

Full Permitting Underway

Complete Environmentals

2013

Underground Rehab

Hydro Contract

Detail Engineering

Begin Construction

2014/15 – Mining Operations

Production Rate	5,000 tpd
Mining Methods	Sub Level Cave/Slot & Slash/Cut & Fill
Copper Production	80 million lbs Cu Eq /yr.
Operating Cash Flow	$99 million /yr @ $3 Cu/lb

COMPANY MANAGEMENT

Stephen Shefsky – *CEO & Director*

Mike Sylvestre – *President & COO*

Lenny Foreht – *VP Corporate Development*

Brad Leonard – *VP Exploration*

Eric Szustak – *CFO*

BOARD OF DIRECTORS

Mark Brennan – *Chairman*

Lester Fernandez – *Director*

Tony Croll – *Director*

Tim Mann - *Director*

CORPORATE HEAD OFFICE

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October 26, 2010 **Symbol: CRI (TSX.V)**

Castle Resources Confirms Significant Copper Mineralization at the Granduc Copper Project, Stewart B.C.

- **GD10-02 intersected 16.75 metres averaging 2.15% Cu, including 5 metres of 3.27% Cu.**
- **GD10-01 intersected 9.78 metres averaging 2.49% Cu, including 5.3 metres of 3.00% Cu**
- **GD10-12 intersected 33.48 metres averaging 1.45% Cu, including 15 metres of 1.72% Cu**
- **Results from first 13 holes of 18 hole (8,300 metre) drill program demonstrate widespread copper mineralization over 300 metres below previous mining operations and over 1,000 metres along strike at the Granduc**

TORONTO, ONTARIO - Castle Resources Inc. (TSX.V: CRI) ("Castle" or the "Company") is pleased to announce initial results from the recently completed 8,300 metre, 18 hole drill program at the Granduc Copper Project ('Granduc') near Stewart, B.C.

"Our initial goal of confirming historical drill results and resource estimates by Newmont and Esso Minerals is on track," said Mr. Mike Sylvestre, President & COO of Castle Resources. "We have shown that there exists the potential for a large copper resource at Granduc and it is our objective now to formulate these results into an initial NI 43-101 resource estimate."

The objective of Castle's 2010 drill program at Grandue was to test the down dip extent of the historical deposit as well as replicate certain Newmont and Esso drill results. Drill results to date indicate this goal was achieved as every hole has encountered visible copper mineralization along a 1,000 metre strike. Specifically, drilling targeted Blocks 3 and 4, which includes the A, B and C zones between the 2175 and 2600 foot level (above sea level) in addition to targeting Block 5, between 1600 foot elevation and 2175 foot elevation, which includes the F, A, B and C zones (*see press release dated July 22, 2010, to learn more about historical non NI 43-101 compliant resource estimates*). All holes intersected locally massive to semi massive and disseminated chalcopyrite, pyrrhotite and pyrite within massive to semi massive magnetite and agrillitic metasediments of the mine series (*see Figure 1*).

Castle moved quickly in August of this year to initiate and complete a drill program that would begin to demonstrate there remains a large copper resource at the Granduc (see updated NI-43-101 at www.castleresources.com). Given the excellent infrastructure that surrounds Granduc, confirming the historical in-situ resources became the immediate objective. These first results indicate that the selected historical in-situ Newmont and Esso resource estimates appear to be reliable; the larger objective is to continue this process through subsequent assay results this year and ultimately into a comprehensive drill campaign next field season.

Hole	Start	End	Width (m)	% Cu	Au (g/t)	Ag (g/t)	Comments
GD10-09	205.7	227.7	**17.00**	**0.99**	0.14	5.20	A, B, C zones @1600' elevation
incl	205.7	209.7	**4.00**	**1.70**	0.36	9.00	
and	349.5	363.5	**15.00**	**1.83**	0.18	14.60	Intersected two lenses
incl	360.5	363.5	**3.00**	**3.36**	0.29	17.40	
GD10-10	562	567	**5.00**	**2.14**	0.27	12.30	F, A zones @ 1800' elevation
and	597	599	**2.00**	**1.44**	0.11	4.20	
GD10-12	335	358.5	**23.5**	**1.36**	0.14	12.80	Targeting A, B, C zones @ 1400' elevation
incl	343	348.25	**5.25**	**2.88**	0.30	17.00	
and	393	426.48	**33.48**	**1.45**	0.24	16.50	Intersected multiple lenses
incl	396	411	**15.00**	**1.73**	0.24	20.50	
and	417	426.48	**9.48**	**1.75**	0.31	19.20	
GD10-13	485	495	**10.00**	**1.09**	0.13	15.40	F, A zones @ 1600' elevation
incl	491.3	493.5	**2.20**	**1.71**	0.28	23.50	

Granduc Highlights

- Newmont and Esso Minerals operated the Granduc Mine between 1971-1984; processed over 15 million tonnes of ore grading 1.71% Cu; produced 420 million pounds of copper (plus gold and silver credits); the mine was closed in 1984 due to low copper prices
- Operators of the Granduc Mine invested over $115 million from Oct 1965 until start-up operations began in 1971
- 17 km haulage tunnel remains in good condition today
- Mining operations at the Granduc Mine consisted of crushing underground then processing of up to 9000 tpd. The concentrate was trucked on a 54 km all weather road to the year-round deep sea port facility in Stewart which remains in operation today
- Bell Copper's exploration activities between 2004 and 2007 have confirmed mineralization within 4 kms to the north and south of the main Granduc orebody

Independent Quality Control and Analytical Protocol

Castle Resources implemented a QA/QC protocol for all its exploration and diamond drilling program on the Granduc. The drilling contractor was Morecore Drilling Services and core diameter was a combination of NQ and thin wall NQ, enabling the possibility for at least two step-downs if ground conditions should require it. All drill hole locations were spotted using a hand-held Garmin GPS receiver

Granduc Drilling Results
(to date)

Note: all widths are downhole thickness

Hole	Start	End	Width (m)	% Cu	Au (g/t)	Ag (g/t)	Comments
GD10-01	126.72	136.5	**9.70**	**2.49**	0.21	5.28	A, B, C Zones twin @ 2500' elevation
incl	131.2	136.5	**5.30**	**3.00**	0.24	6.45	
							Intersected multiple lenses as anticipated
and	224.2	227.75	**3.55**	**1.82**	0.15	21.11	
	256	276.5	**20.5**	**1.38**	0.13	14.60	
incl	256	263	**7.00**	**1.71**	0.17	14.70	
incl	256	261	**5.00**	**1.90**	0.20	22.00	
incl	267.5	274.5	**7.00**	**1.79**	0.14	14.60	
GD10-02	158.3	175.1	**16.75**	**2.15**	0.17	6.80	A, B, C Zones twin @ 2100' elevation
incl	158.3	163.3	**5.00**	**3.27**	0.22	8.80	
							Intersected multiple lenses as anticipated
and	277.3	294.7	**17.40**	**1.73**	0.24	21.69	
incl	287.2	291.2	**4.00**	**3.26**	0.50	21.50	
and	312.1	321.5	**8.50**	**1.45**	0.16	9.30	
GD10-03	488.5	508.65	**20.15**	**1.38**	0.16	12.90	F, A zones @ 1600' elevation
incl	488.5	491.5	**3.00**	**2.54**	0.43	14.40	
							Intersected two lenses
and	499.5	504.5	**5.00**	**1.37**	0.13	21.10	
GD10-04	341	349	**8.00**	**1.32**	0.13	7.40	A, C Zones @ 2100 elevation
GD10-05	354.95	368	**14.50**	**1.26**	0.15	12.10	A, C Zones twin @ 2500' elevation
incl	360.5	366.5	**6.00**	**1.62**	0.17	14.70	Intersected lenses as anticipated
GD10-06	587.55	636.5	**48.95**	**0.46**	0.12	5.30	F, A zones @ 2100' elevation Intersected weakly disseminated
incl	589.55	592.55	**3.00**	**1.47**	0.14	7.70	sulphides
GD10-07	137	156.58	**15.78**	**0.81**	0.09	4.90	A Zone @ 2400' elevation
incl	154	156.58	**2.58**	**1.20**	0.11	4.40	
GD10-08	264.18	297.03	**32.85**	**0.82**	0.09	7.90	B1, B2, Zones twin
incl	289	297.03	**8.03**	**1.54**	0.11	13.00	@ 1600' elevation
incl	292	296	**4.00**	**1.88**	0.11	13.30	

with a 2m to 6m accuracy. Core was delivered to the secure Core Shack facility located on the property. In addition to recovery and RQD (Rock Quality Designation) data, geologic parameters including lithology, alteration, presence and identification of sulphide mineralization along with other geologic parameters are noted and recorded. Core was marked in one meter intervals for splitting, sampling and assaying, unless geologic data indicate a shorter sample interval. Prior to splitting, all core was photographed. Core splitting was done with a diamond core saw or by manual splitter and ½ of the drill core was submitted to EcoTech Laboratories (part of the Stewart Group of Companies), a certified sample preparation facility located in Stewart B.C., where samples were crushed, pulped and screened to 100 mesh. The pulps were then sent by courier to the main EcoTech laboratory facility in Kamloops B.C. for assay, while the rejects are stored at the EcoTech prep facility in Stewart. All samples were analysed through an aqua-regia digest and analysesd through a 35 element ICP/MS package and gold fire assay with an Atomic Absorption (AA) finish. All sample over-runs through the ICP package automatically were fire assayed with an AA finish.

A QA/QC protocol was followed for the drill core sampling program, which involved inserting sample blanks and standards at regular intervals into the sample stream. Blanks were inserted at the nominal rate of 1 in every 35th sample as well as after a sample which contained significant visible sulphides. Sample standards were inserted at the nominal rate of 1 in every 20th sample (alternating between OREAS_93 and OREAS_95). Every 20th sample on odd multiples was selected as a "referee sample" whereby instructions were given to the prep facility to prepare 2 pulps, analyze one and keep the second to be sent to another credited laboratory for verification of results. Three duplicate samples were selected per hole, located in a mineralized zone to assure continuity of higher grade results, where half the core was quartered and sent as a separate sample. Sample tags made of sturdy Tyvek were inserted into each plastic sample bag and securely sealed. The sample number along with the sample interval was recorded on the drill log. The sample interval was recorded in the sample tag book. A 3rd sample tag was stapled into the core box at the end of the sample interval. All core is currently and securely stored in the remote camp location.

Brad Leonard, P. Geo., Castle's Exploration Manager, is the Qualified Person responsible for the scientific and technical work (as defined under National Instrument 43-101) discussed in this press release, and has reviewed this press release.

Conference Call

*Castle's management will hold a conference call on Wednesday, October 27, 2010, at 10:00 a.m. EST to discuss the drilling results. Shareholders, media and interested investors are invited to listen to the live conference call by dialing **416-507-9740 or 1-866-512-0904** and entering the **Participant Code #: 5318157.***

About Castle Resources

Castle Resources Inc. is a Toronto-based junior mineral development company focusing on high-quality, advanced projects. Management's goal is to begin the redevelopment of the 100% owned past producing Granduc Copper Mine and begin new exploration activities; as well, management is quickly advancing the Elmtree Gold Project in New Brunswick toward feasibility in 2010. For more information please visit the Castle Resources' website at www.castleresources.com

Disclaimer

Certain statements contained in this news release may contain forward-looking information within the meaning of Canadian securities laws. Such forward-looking information is identified by words such as "estimates", "intends", "expects", "believes", "may", "will" and include, without limitation, statements regarding the company's plan of business operations (including plans for progressing assets), estimates regarding mineral resources, projections regarding mineralization and projected expenditures. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include, among others, metal prices, risks inherent in the mining industry, financing risks, labour risks, uncertainty of mineral resource estimates, equipment and supply risks, title disputes, regulatory risks and environmental concerns. Most of these factors are outside the control of the company. Investors are cautioned not to put undue reliance on forward-looking information. Except as otherwise required by applicable securities statutes or regulation, the company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

This news release does not constitute an offer to sell or solicitation of an offer to sell any of the securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to a U.S. Person unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

For further information please contact:

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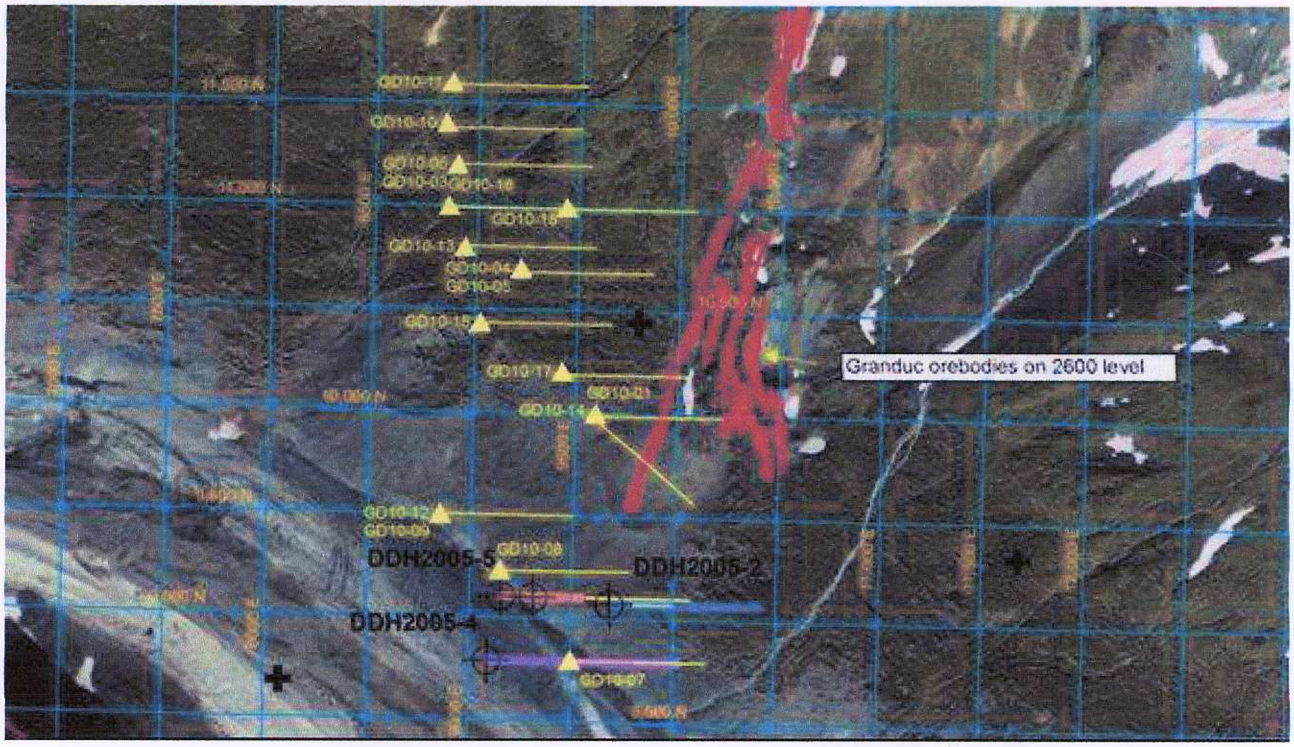
Figure 1. Plan view of Granduc orebodies on 2600 ft. level with drill locations



February 28, 2011 **Symbol: CRI (TSX.V)**

Castle Resources NI 43-101 Resource Estimate for Granduc Copper Project Exceeds Expectations

- **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**

TORONTO, ONTARIO - Castle Resources Inc. (TSX.V: CRI) ("Castle" or the "Company") is pleased to provide shareholders and investors with a new NI 43-101 resource estimate for the past producing Granduc Copper Mine near Stewart B.C.

Mike Sylvestre, President & COO, stated, "This initial resource estimate and the defined exploration potential conclusively demonstrates the exciting potential for the Granduc. Based on significant historical data and a limited 8,300 metre drill program completed in Castle's first drill program last year, we have begun the process of building a large high grade copper resource with excellent operating infrastructure already in place."

Mr. Sylvestre continued, "This exciting initial resource clearly justifies management's determination to aggressively drill the numerous exploration targets at the Granduc this year. Our primary focus now is to upgrade much of the initial resource from the inferred to the indicated category and grow the resource by drilling new zones down dip and along strike so as to expand the Granduc resource estimate later this year."

The mineral resource estimate was prepared by SRK Consulting (Canada) Inc. (SRK) of Vancouver B.C., an independent, international consulting practice that provides focused advice and solutions to clients, mainly from the earth and water resource industries.

Granduc Copper Project, Indicated Mineral Resource, Feb 28, 2011

Cut-off	Quantity	Cu Grade	Contained Copper
(Cu %)	*(millions of tonnes)*	*(Cu %)*	*(millions of lbs)*
0.5	4.04	1.52 %	135.7
0.8	**3.75**	**1.59 %**	**131.4**
1.0	3.35	1.67 %	123.2
1.2	2.75	1.79 %	108.7
1.4	2.12	1.94 %	90.8

Granduc Copper Project, Inferred Mineral Resource, Feb 28, 2011

Cut-off	Quantity	Cu Grade	Contained Copper
(Cu %)	*(millions of tonnes)*	*(Cu %)*	*(millions of lbs)*
0.5	17.7	1.28 %	500.8
0.8	**15.8**	**1.36 %**	**471.5**
1.0	13.1	1.45 %	418.6
1.2	9.2	1.59 %	323.1
1.4	5.9	1.76 %	228.4

SRK believes the Mineral Resource is most accurately represented at a 0.8% cut-off. Mineral resources that are not mineral reserves do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. SRK is not aware of any environmental, permitting, legal, title, taxation, socio-political or marking issues that would materially affect the mineral resource. The resource estimate was completed under the supervision of independent Qualified Person Marek Nowak, P.Eng and Principle Geostatistician with SRK.

The resource estimate is based on a database containing approximately 2000 drillholes and 40,000 assays. Historical data was verified wherever possible against mine records including logs, sections and plans, however not all survey or assay data could be verified. Assays from the 2010 drillholes and re-sampling of historical core were used to further validate the data. All assays from the 2010 drilling were independently verified by SRK. SRK completed a site visit to the property in September 2010 during the Castle drill program but did not complete any independent sampling. SRK believes the data of sufficient quality for the definition of the mineral resource.

The Granduc copper deposit is a volcanogenic massive sulphide deposit ("VMS") with tabular, stratified mineralization zones which have been deformed by several phases of folding. SRK created grade shell models at a 0.7% cut-off for 13 domains, using historical sections and plans as a guide. Eleven of these domains lie within the Main Zone where historical mining took place and two zones were defined within the North Zone, approximately 1 km north of the Main Zone. All domains were modelled at a minimum width of 1.5 m. Mineralized domains at the extents of the deposits are open down-dip as well as along strike.

For the Main Zone, the blocks were estimate by ordinary kriging into blocks of 2 m by 10 m by 10 m. The North Zone was estimated using inverse distance squared methods into similar sized blocks. For volumetric accuracy, blocks were sub-blocked to 0.5m by 2.5m by 2.5m. Average bulk density values were applied to all blocks within the mineralized domains.

Estimated blocks were categorized into Indicated and inferred classes based upon the density of drilling information available as well as overall confidence in the available data for domain interpretation. Blocks immediately below the lower limits of the underground mining where density of underground drilling was highest, were classed as indicated. Blocks further away from the mining levels where drillhole spacing was wider and there is less certainty in correlating between mineralized intercepts, was classed as inferred.

The mineral resources are limited to unmined areas based on a model of the historic mining limits. The historic mining limits were determined from mine closure records filed with the government in 1984. At this time SRK has not gained underground access and therefore cannot directly verify the boundary. SRK believes that this boundary has been conservatively defined on reliable records.

In addition to the mineral resources, SRK assessed the exploration potential defined by wider spaced drilling data. The exploration potential is based upon approximately 20 Main Zone and 13 North Zone drill holes that have been correlated with the resource domains, but are too widely spaced to define a resource. In the main zone, wide spaced drilling has intersect mineralized intervals down to the 325m (1065 ft) level and the exploration potential is largely defined by the down-dip extension of the mineralization from the inferred mineral resource. In the North Zone, the exploration potential has been defined by correlating widely space drillholes largely above the mineral resource. The resource is defined in an area where drilling density from an exploration drift was high enough to accurately quantify the resource. Fans of widely spaced surface and underground drillholes have been used to quantify the exploration potential.

The potential quantity and grade of the exploration potential is conceptual in nature and there has been insufficient exploration to define a mineral resource. It is uncertain if further exploration will result in the exploration targets being delineated as a mineral resource.

Total Exploration Potential	
Estimated Quantity Range	**Estimated Grade Range**
(millions of tonnes)	*(Cu %)*
17 to 23	1.3 % to 1.6 %
Based upon a cut-off grade of 0.8 % Cu	

Gold and silver grades were not estimated as the historical assay data for both commodities was unavailable. However, given that Newmont and Esso reported yearly gold and silver production figures during the life of mine, and Castle's recent drill results demonstrated gold and silver mineralization (see press release dated Dec 6, 2010), it suggests that future resource updates should include analysis of precious metals where supported by available data.

Granduc Highlights:

- Newmont and Esso Minerals operated the Granduc Mine between 1971-1984; processed over 15 million tonnes of ore grading 1.71% Cu; produced 420 million pounds of copper (plus gold and silver credits); the mine was closed in 1984 due to low copper prices
- Operators of the Granduc Mine invested over $115 million from Oct 1965 until start-up operations began in 1971
- 17 km haulage tunnel remains in good condition today
- Mining operations at the Granduc Mine consisted of crushing underground then processing of up to 9000 tpd. The concentrate was trucked on a 54 km all weather road to the year-round deep sea port facility in Stewart which remains in operation today
- Bell Copper's exploration activities between 2004 and 2007 have confirmed mineralization within 4 kms to the north and south of the main Granduc orebody

Brad Leonard, P. Geo., Castle's Exploration Manager, is the Qualified Person responsible for the scientific and technical work (as defined under National Instrument 43-101) discussed in this press release, and has reviewed this press release.

About Castle Resources

Castle Resources Inc. is a Toronto-based junior mineral development company focusing on high-quality, advanced projects. Management's goal is to continue the redevelopment of the 100% owned past producing Granduc Copper Mine and begin new exploration activities; as well, management is quickly advancing the Elmtree Gold Project in New Brunswick toward feasibility in 2011. For more information please visit the Castle Resources' website at www.castleresources.com

Disclaimer

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