

RX Exploration Inc.
(the "Company")
MANAGEMENT'S DISCUSSION AND ANALYSIS
Three month and Twelve Month Period Ending
June 30, 2009 and June 30, 2008

1.1 Date

This MD&A refers to material information regarding the twelve month financial year of RX Exploration Inc. (hereinafter called the "Company" or "RX") ended June 30, 2009 and was prepared on October 23, 2009.

The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars.

Forward-Looking Statements

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's internal projections, expectations, future growth, performance and business prospects and opportunities and are based on information currently available to the Company. Since they relate to the Company's current views with respect to future events, they are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.

1.2 Overall Performance

Description of Business

The Company is engaged in mineral exploration in Montana and northern Ontario. At this time the Company does not own or operate any revenue producing mineral properties and, accordingly, does not have any cash flow from operations. The Company raises funds for exploration and general overhead and other expenses through the issuance of shares from treasury.

The Company intends to continue raising funds for future exploration and on-going overhead and other working capital expenses through the continued issuance of shares from treasury. In general, based on the current circumstances, management of the Company believes that there will be sufficient interest from participants in the capital markets and other mineral exploration and mining companies willing to fund exploration programs to continue to meet the Company's ongoing overhead and exploration expenses. The Company does recognize that in the current difficult market conditions, fund raising activities may be more challenging than in the past.

**Drumlummon Mine – Montana
(referred to as Hard Rock Claims, MT in the Financial Statements)**

The Company entered into an agreement with private arm's length owners to option from them 100% of their interest in patented mining claims (the "Hard Rock Claims") situated in Lewis and Clark County in the State of Montana consisting of 23 claims comprising approximately 200 – 300 acres (3 of the claims consist of less than 100% interest). The claims include the inactive past producing Drumlummon Gold and Silver Mine. In order to maintain the Drumlummon option in good standing, the Company has paid the sum of US\$750,000 to date to the Optionors. The Company must pay a further US\$480,000 in two equal annual payments of US\$240,000. As additional consideration, the Company has paid to the Optionors 200,000 common shares in the capital of the Company. A two percent (2%) Net Smelter Return ("NSR") royalty on the Drumlummon Claims has been reserved to the Optionors.

The Company has staked two further claims blocks of 68 and 50 claims respectively, adjacent to the Drumlummon Claims.

The Company completed an updated technical report in accordance with the standards set out in National Instrument 43-101. The report was prepared by Timothy J. Beesley, P.Eng., of T.J. Beesley Geological Services Inc., a "qualified person" within the meaning of National Instrument 43-101. The report was publicly filed on SEDAR website at www.sedar.com on November 27, 2008.

Mr. Beesley has calculated initial inferred resources of 155,518 tons containing 70,703 oz. of gold and 1,915,560 oz. of silver as summarized below:

400 E Vein	Estimated Tonnage	Grade Au (oz/ton)	Ounces of Gold	Grade Ag (oz/ton)	Ounces of Silver
A	67,284	0.39	26,192	12.2	820,166
B	39,740	0.53	21,097	7.3	291,053
C	48,494	0.48	23,414	16.6	804,341
Total	155,518		70,703		1,915,560

This significant zone (the "New Discovery") was discovered in virgin rock 400 feet into the hanging wall of the Drumlummon vein between Shafts No. 1 and 2 during underground diamond drill testing of the tonnage and grade potential of the unmined "D" Block identified by prior mine operators. Resource estimates for the Drumlummon Mine have been presented by prior operators which are not in compliance with the current requirements found in NI 43-101 and accordingly cannot be reported at this time. The New Discovery is in addition to any resource anticipated by the Company based on such estimates. The area covered by these calculations has only been partially drill tested and may be increased and upgraded by further drilling, including infill drilling as required.

Mr. Beesley's report dated November 21, 2008 can be viewed in its entirety on the Company's website (www.rxexploration.com) or on the Company's information on the CNSX website (www.cnsx.ca) or SEDAR (www.sedar.com).

The Following are the latest significant assay results:

Hole	From (ft)	To (ft)	Intersection Length (ft)	Gold Au oz/ton	Silver Ag oz/ton
09-72	19	51	32	0.350	9.38
incl.	45	51	6	1.526	46.65
incl.	45	47	2	3.246	134.10
09-74	44	61.5	17.5	0.254	1.36
09-75	72	102	30	0.208	0.57
and	124	132	8	0.431	1.01
09-76	14	16	2	0.158	0.87
and	22	26	4	0.106	0.81
and	36	39	3	0.162	3.32
09-77	18	19	1	3.032	9.11
09-78	14	16	2	0.180	22.08
and	18	19	1	5.200	2.84
09-80	14	20	6	0.645	5.017
incl.	16	18	2	1.550	11.55
09-81	14	16	2	1.364	2.37
09-82	14	16	2	1.130	1.44
09-83	41	43.5	2.5	0.244	4.81
09-85	40	44	4	0.117	5.58
and	68	74	6	0.272	1.14
incl.	70	72	2	0.580	0.91
and	80	82	2	0.234	0.50
09-86	46	48	2	0.580	16.83
and	56	58	3	1.060	51.38
incl.	57	58	1	2.976	146.29

09-87	29	31	2	0.692	6.12
and	66	86	20	0.513	4.23
incl.	72	74	2	1.186	4.53
incl.	80	82	2	1.706	28.47
09-88	34	36	2	2.248	7.23
and	52	54	2	2.356	7.72
and	66	88	22	0.487	2.63
incl.	66	82	16	0.624	3.28
09-91	92	95	4	0.373	0.83
and	102	103.5	1.5	0.428	1.95
09-93	12	16	4	0.096	16.07
and	36	40	4	0.718	12.76
and	94	96	2	2.829	91.36
09-95	38	40	2	0.406	42.54
09-100	550	562	12	0.237	0.55
and	1057	1059	2	0.404	2.55

The results indicate that substantial mineralized material remains on the walls of the old workings and clearly confirms the potential for developing very significant tonnage of high grade gold and silver over large widths in this “bonanza”- type epithermal deposit, in the vicinity of all of the old workings as well as totally undeveloped areas of the mine.

In addition to the underground drilling program, the Company has drilled 12 surface holes in unmined “A” and “B” blocks identified by prior operators. Drill results have been encouraging to date and more drill holes are planned in that area. The Company expects to complete and report the results of its NI 43-101 compliant resource calculations for those blocks when the drilling is complete and full assays results are returned.

In response to this discovery, during September and October, the Company staked an additional 50 mining claims, contiguous to their existing patented and unpatented mining claim land package, to cover both virgin ground in the hanging wall and possible extensions along strike of known veins.

The Company operates the Drumlummon Mine project through its 100% owned subsidiary, Drumlummon Gold Mine, LLC, organized under the laws of Montana.

Further information is available on the Company’s website at www.rxexploration.com

**Drumlummon Mine (Montana) – Placer Claims
(referred to as the Placer Claims in the Financial Statements)**

The Company has entered into an agreement with Spruce Ridge Resources Ltd. (“Spruce Ridge”) whereby a joint venture company was formed to acquire about 350 to 400 acres of patented mining claims covering an overall length of about 5 miles (the “JV Property”) which are adjacent to the Drumlummon Mine.

The JV Property contains tailings from the Drumlummon Mine which, according to historical information, contain substantial recoverable amounts of gold and silver. Historical resource estimates cannot be given as they are not in compliance with current NI 43-101 standards and accordingly cannot be relied upon. In addition, the JV Property contains the concrete foundations of a previous 1,000 ton per day mill. The foundations are in excellent condition and may be appropriate for use in the reconstruction of a mill should a production decision be supported by a feasibility study for the JV Property and/or the Drumlummon Mine.

Pursuant to the Joint Venture Agreement, Spruce Ridge earned its 50% working interest in the Joint Venture Property by subscribing to a private placement of the Company in the amount of CDN \$3,000,000 consisting of a total of 7,500,000 units at a price of CDN \$0.40 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at CDN \$0.60 per share until June 30, 2010. The Company was responsible for payment of all cash and share payments required to acquire the JV Property with the exception of all reserved royalties on the tailings and placers. Each party will pay its proportionate share of future exploration and development costs.

The Company and Spruce Ridge have formed Marysville Mining and Milling LLC (“MMM”) to own the Placer Claims. By completing the \$3,000,000 private placement into the Company, Spruce Ridge earned its 50% working interest in the JV Property and 50% ownership of MMM which completed the purchase of the JV Property. RX purchased outright the JV Property from the arm’s length vendors in July 2008 for the sum of US \$625,000 plus 350,000 common shares of the Company and transferred the property to the JV. The vendors, who are the same principals from whom the Company acquired the Drumlummon Mine, will retain a 2% NSR on tailings and 3% gross royalty on placer mineralization. The JV Property includes all appurtenant water rights.

Spruce Ridge and the Company have entered into an agreement regarding the management and operation of MMM which was reduced to writing as an operating agreement under Montana law.

By further judgment of the Montana First Judicial District Court, Lewis and Clark County, except with respect to a right-of-way of the Burlington Northern Santa Fe Railway Company (“BNSF”), the Company secured a judicial order quieting title to the JV Property. The Company through its Montana legal counsel is continuing its discussions with BNSF to enable BNSF to determine the extent, if any, of BNSF’s right-of-way over the JV Property. The Company does not believe the right-of-way, if it has not lapsed, would have any negative impact on the Company’s operations.

**Sill Lake silver-lead deposit –Sault Ste. Marie, Ontario
(referred to as Van Koughnet Township Claims, ON in the Financial Statements)**

The Company entered into two option agreements to acquire an undivided 50% working interest in the past producing Sill Lake silver-lead project in the Township of Van Koughnet, near Sault Ste. Marie, Ontario.

In 1996, prior to the closure of the mine, the workings were visited by James Bates, P.Eng. While it is not possible to present mineral resources and mineral reserves in compliance with National Instrument 43-101 (Standards of Disclosure for Mineral Projects), his preliminary review at that time, based on sampling of the floor of the 800 foot ramp driven in ore, reported a "resource of 350,000 tons with an average grade of 13-14% lead and 13 oz/ton silver over a 4 foot mining width." The technical information contained in this report with respect to the Sill Lake silver-lead project has been provided by John A. Rae, P. Geo., who is a qualified person within the meaning of National Instrument 43-101. Mr. Rae has had recent discussions with Mr. Bates concerning his resource estimates. Based on those discussions, they are considered to be currently relevant, valid and reliable.

The Company has completed IP geophysical surveys and has completed a first phase diamond drilling program to confirm the validity of historic data regarding grades and tonnage of potential resources. Exploration efforts will focus on testing the remaining resources accessible by the existing mine workings and potential extensions to the resource along strike and at depth. The existing ramp has been dewatered and rehabilitation efforts were completed in support of an underground sampling program. The Company is awaiting further information from its joint venture partners.

Property Agreements

Under Agreement A, in order to earn a 50% undivided working interest, the Company paid the sum of \$25,000 and 100,000 common shares of the Company on closing and must pay annual advance royalty payments of \$12,000 thereafter. The Company has paid the March 10, 2009 royalty payment of \$12,000. The Company must incur \$1,500,000 in expenditures on mining operations within two years, of which \$500,000 must be completed within six months. The Company has incurred and/or funded \$1,532,770 in exploration expenditures towards the commitment as of June 30, 2009. The Company has issued a further 60,000 common shares on March 10, 2009, the first anniversary of closing and must issue a further 60,000 common shares of the Company on the date of exercise of the option.

The property is subject to a 2% NSR royalty, one-half of which can be repurchased for \$600,000. After the Company earns its interest, both parties will contribute equally to further development. There will be a standard dilution clause if either party fails to pay its proportionate share of further expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% NSR.

Under Agreement B, the Company has entered into two option agreements to acquire an undivided 50% working interest in 5 claims located in the Township of Van Koughnet. In order to maintain the option, the Company must incur expenditures totaling \$1,000,000 with respect to any of the claims on or before March 11, 2010 and a further \$500,000 within one year of the completion of the first \$1,000,000. As at June 30, 2009, the Company has incurred and/or funded \$556,950 towards this commitment. Once the Company has incurred the expenditures with respect to the claim it shall automatically earn a 50% interest. After the Company earns its interest, both parties will contribute equally to further development. There will be a standard dilution clause if either party fails to pay its proportionate share of further expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% NSR.

Veekay Lake Mining Claims (referred to as Thunder Bay Claims, ON in the Financial Statements)

The Company entered into an option agreement dated October 21, 2005 with Wabassi River Resources Inc. ("Wabassi"), an arm's length company, to acquire an undivided 50% interest in eight (8)

unpatented mining claims (totaling 108 claim units) in the Thunder Bay Mining Division, in the Province of Ontario (the "Claims").

In order to maintain the option in good standing, the Company paid Wabassi the sum of \$5,500 and is required to incur first year mining expenditures of not less than \$150,000 (of which it has expended \$99,500 to date), incur further mining expenditures of not less than \$200,000. Thereafter, the Company may elect to earn its 50% interest by paying Wabassi the sum of \$150,000 and incurring further mining expenditures of not less than \$1,150,000. In the alternative, the Company may elect to convert its interest to 10% of the shares of a new company to be created to explore and develop the Claims.

The Claims are subject to a royalty interest equal to a two percent (2%) NSR royalty. The Company may, at any time, repurchase a one percent (1%) NSR for the purchase price of \$1,500,000.

The Company is prepared to commence exploration on the Veekay Lake Project. In order to accomplish its business objectives, which are to acquire, explore and develop prospective natural resource properties, the Company commissioned a program of line-cutting in preparation for an IP survey on the Veekay Lake Project. The Company has not been able to meet its requirements under this arrangement as access to the mining claims and Zulapa interest have not yet been granted by the First Nations band however, the Company will continue to proceed with this exploration once permission has been granted. In the meantime, assessment work requirements have been held in abeyance.

The Company commissioned a technical report in accordance with the standards set out in National Instrument 43-101. The report is published and filed on the SEDAR website at www.sedar.com.

1.3 Selected Financial Information

Total current assets at the end of the year ended June 30, 2009 were \$1,250,974 (June 30, 2008 - \$5,001,067) and consisted of cash in the amount of \$12,797 (June 30, 2008 - \$2,249,713) amount due from agent, which was received July 3, of \$1,201,610 (June 30, 2008 - \$2,730,000) and prepaid expenses in the amount of \$36,567 (June 30, 2008 - \$21,354). In addition, mining claims and deferred exploration expenditures in the amount of \$10,080,534 (June 30, 2008 - \$3,103,655) plus reclamation bonds of \$34,263 (June 30, 2008 - \$14,000).

3 months ended	Income or (loss) before discontinued operations & extraordinary items	Income or (loss) including discontinued operations & extraordinary items	Net Income or (loss) per share Basic & diluted	Total Assets	Long-term Liabilities	Cash Dividends declared per share
June 30	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
	\$	\$	\$	\$	\$	\$
2009	Nil	(303,361)	(0.0051)	11,365,771	34,263	Nil
2008	Nil	(37,587)	(0.0012)	8,118,722	14,000	Nil

12 months ended	Income or (loss) before discontinued operations & extraordinary items	Income or (loss) including discontinued operations & extraordinary items	Net Income or (loss) per share Basic & diluted	Total Assets	Long-term Liabilities	Cash Dividends declared per share
June 30	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
	\$	\$	\$	\$	\$	\$
2009	Nil	(721,711)	(0.014)	11,365,771	34,263	Nil
2008	Nil	(766,694)	(0.027)	8,118,722	14,000	Nil

1.4 Results of Operations

The Company has no sales and has never earned revenues or had earnings with the exception of short-term GIC interest revenue in the amount of \$6,917 (June 30, 2008-\$25,518). Raising capital through sales of its common shares funds the Company's mining exploration operations.

Three months ended June 30, 2009 Compared to Three Months Ended June 30, 2008:

Total expenses excluding extraordinary items for the three months ended June 30, 2009 amounted to \$263,821 compared to \$652,699 for the three months ended June 30, 2008.

No GIC interest was earned for the three months ended June 30, 2009 compared to \$13,021 for the three months ended June 30, 2008.

The Company incurred a loss of \$303,361 for the three months ended June 30, 2009 as opposed to a loss of \$37,617 for the three months ended June 30, 2008.

The expenses consist of office and general expenses of \$48,770 (June 30, 2008-\$49,040), professional fees of \$140,534 (June 30, 2008 - \$142,093), stock-based compensation of \$43,553 (June 30, 2008 - \$81,998) consistent with stock options issued to officers, directors and shareholders, Part XII.6 tax of \$30,964 (June 30, 2008 - \$79,567) and future tax recovery of \$65,460 (June 30, 2008 - \$302,090). There was a write-down of deferred exploration expenditures for the three months ended June 30, 2009 in the amount of \$105,000 related to the Thunder Bay Mining Claims due to the length of time which has passed since these costs were incurred. For the three months ended June 30, 2008 there was no write down of deferred exploration expenditures.

During the three months ended June 30, 2009 the Company sustained a loss of \$0.0051 per share compared to a loss of \$0.0012 for the three months ended June 30, 2008.

Twelve months ended June 30, 2009 Compared to Twelve Months Ended June 30, 2008:

Total expenses excluding extraordinary items for the twelve months ended June 30, 2009 amounted to \$970,578 compared to \$1,094,302 for the twelve months ended June 30, 2008.

The Company incurred a loss of \$721,711 for the 12 months ended June 30, 2009 as opposed to a loss of \$766,694 for the 12 months ended June 30, 2008.

The company earned \$6,917 in GIC interest for the 12 months ended June 30, 2009 compared to \$25,518 for the twelve months ended June 30, 2008.

The expenses consist of office and general expenses of \$126,844 (June 30, 2008-\$132,763), professional fees of \$351,913 (June 30, 2008 - \$184,347) consistent with its increased activity in mineral exploration requiring more extensive management and the activation of another wholly-owned subsidiary along with restructuring efforts to enable the Company to become an active publicly traded mineral exploration company, stock-based compensation of \$312,278 (June 30, 2008 - \$676,636) consistent with stock options issued to officers, directors and shareholders, Part XII.6 tax of \$74,543 (June 30, 2008 - \$100,556) and Future Tax recovery of \$241,950 (June 30, 2008 - \$302,090). There was a write-down of deferred exploration expenditures for the 12 months ended June 30, 2009 in the

amount of \$105,000 related to the Thunder Bay mining Claims (Nil for the 12 months ended June 30, 2008).

During the twelve months ended June 30, 2009 the Company sustained a loss of \$0.014 per share compared to a loss of \$0.027 for the twelve months ended June 30, 2008.

Deferred Development Costs

As of June 30, 2009, the Company had \$10,080,534 in mining claims and deferred expenditures compared with \$3,103,655 as of June 30, 2008. Of the \$7,081,879 attributable to the twelve months ended June 30, 2009, \$5,050,691 was attributable to the extensive underground rehabilitation and diamond drilling program at the Drumlummon Mine in Montana and \$408,736 was attributable to the acquisition of the Placer claims in Montana, while \$1,622,452 were attributable to the Company's two properties in the Township of Van Koughnet, near Sault Ste. Marie, Ontario.

During the fiscal year ended June 30, 2009, \$105,000 was written-off related to the Thunder Bay Mining Claims due to the length of time which has passed since these costs were incurred. The Company is planning to pursue these claims once permission to proceed has been obtained from the First Nations band. No deferred exploration costs were written-off during the fiscal year ended June 30, 2008.

Following is a breakdown of components of capitalized expenditures related to the Drumlummon Mine and the Placer Claims:

Categories	Fiscal Year - June 30, 2009 \$	Fiscal Year - June 30, 2008 \$
<u>Drumlummon Mine</u>		
Legal	33,031.63	91,892.03
Purchase & Options	320,839.03	422,595.41
Assessment	5,453.00	3,551.95
Electrical	7,012.62	153,144.55
Engineering, Operations & Project Supervision	824,130.52	582,931.22
Geological	161,450.65	30,651.90
Rehabilitation	1,741,061.57	194,291.42
Restoration Bonds	20,263.07	-
Drilling & Mining	1,750,349.40	667,514.11
Supplies	49,828.79	31,777.44
On-Site trailer	7,247.43	12,743.17
Contract Labour	15,938.62	-
General	114,084.66	23,033.82
<u>Placer Claims</u>		
Purchase & Options	397,062.00	-
Legal	11,674.55	-

General and Administration Expenses

Following is a breakdown of components of expenses for the three months ended June 30, 2009 and 2008:

Expenses	2009 - \$	2008 - \$	Change - \$
Interest and Finance Charges	227	272	(45)
Office, Administrative & Other Exp.	30,087	19,380	10,706
Legal	391	64,753	(64,362)
Professional Services	140,143	77,340	62,803
Travel	25,686	30,126	(4,440)
Filing and Regulatory	10,509	8,590	1,919
Web site	1,418	709	709
Foreign Exchange (gain) loss	(19,156)	(10,037)	(9,120)
Interest and Other Income	0	(13,021)	13,021
Part XII.6 Tax	30,964	79,567	(48,603)
Future Tax recovery	(65,460)	(302,090)	236,630

Following is a breakdown of components of expenses for the twelve months ended June 30, 2009 and 2008:

Expenses	2009 - \$	2008 - \$	Change - \$
Interest and Finance Charges	882	615	267
Office, Administrative & Other Exp.	78,465	48,379	30,086
Legal	97,017	81,397	15,620
Professional Services	254,896	102,950	151,946
Travel	44,028	44,918	(889)
Filing and Regulatory	56,554	37,871	18,683
Web site	4,043	4,043	0
Foreign Exchange (gain) loss	(57,129)	(3,062)	(54,067)
Interest and Other Income	(6,917)	(25,518)	18,601
Part XII.6 Tax	74,543	100,556	(26,013)
Future Tax recovery	(241,950)	(302,090)	60,140

Included in Office and General are printing, trade shows, news releases, courier, delivery, postage, rent, office supplies, office equipment repairs & maintenance, telephone and reflected the significant increase in activities of the Company. Increases in Professional Services are primarily the result of the increased business and financial activities of the Company along with the activation of a fully-owned subsidiary.

Legal fees were \$64,362 lower for the last 3 months in 2009 than in 2008 because a legal payable was written off. This payable was outstanding at the end of 2008 and was subsequently settled. In

addition, in fiscal 2008, the entire year's legal fees were accrued at the year end. In fiscal 2009, the legal fees are accrued quarterly. During the year the total professional services required by the Company increased due to several private placements, regulatory and permitting issues, service contracts, securities regulatory filings and all other related activities.

1.5 Summary of Quarterly Results to June 30, 2009

Quarter Ended	Sales/Revenue - \$	Income/(Loss) - \$	Net Income(Loss) per share Basic & Diluted-\$
Jun 30/09	Nil	(303,361)	(0.0051)
Mar 31/09	Nil	(317,134)	(0.0062)
Dec 31/08	Nil	(37,205)	(0.0010)
Sep 30/08	Nil	(64,339)	(0.0010)
Jun 30/08	Nil	(36,617)	(0.0267)
Mar 31/08	Nil	(673,714)	(0.0207)
Dec 31/07	Nil	(35,189)	(0.0010)
Sep 30/07	Nil	(20,174)	(0.0010)
June 30/07	Nil	(228,287)	(0.0150)
Mar 31/07	Nil	(24,652)	(0.0017)
Dec 31/06	Nil	(20,104)	(0.0020)
Sep 30/06	Nil	(5,686)	(0.0005)

As at June 30, 2009 there were 68,207,578 shares (\$6.572.952) issued and outstanding.

1.6 Liquidity

As at June 30, 2009 the Company had a working capital surplus (current assets less current liabilities) of \$550,733, cash and receivable due from agent (received July 3) of \$1,214,407 and current liabilities of \$700,241.

As at June 30, 2009 the Company had no contractual commitments or lease agreements other than as disclosed herein or in relation to its ongoing obligations to geological consultants and contractors employed in its ongoing underground operations in the Drumlummon Mine in Montana and the Van Koughnet Township of projects in Sault Ste. Marie, Ontario.

1.7 Capital Resources

The only resources available to the Company to raise exploration funds are the equity markets and joint venture arrangements with other mineral resource companies. The Company's primary capital assets are interests in mineral projects, which are discussed in detail in the section, Overview of Performance. The Company has entered into several agreements, which provide for further expenditures, option payments and exploration expenses to be incurred. Some of these commitments relate to option agreements and the Company is not committed to completing these expenditures.

The Company anticipates that it will require additional capital of approximately \$250,000 over the next 12 months for working capital purposes:

The Company currently has on hand the sum of US \$151,252 and CDN \$1,041,144 in cash.

The Company in the past has relied upon private placement subscriptions to satisfy its funding requirements and will continue to do so in the future. There are no assurances that capital requirements will be met by this means in the future and the Company is mindful of the current challenges in the capital markets and with commodity prices and the economy in general.

1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

1.9 Transactions with Related Parties

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the respective parties. Related party transactions not disclosed elsewhere are summarized below:

Included in mining claims and deferred exploration expenditures are \$40,960 (2008 - \$51,720) of fees paid to the Company's legal counsel who is a director of the Company and \$46,654 (2008 - Nil) paid to companies controlled by officers of the Company.

Included in accounts payable and accrued liabilities is \$74,252 (2008 - \$181,790) due to the Company's legal counsel who is a director of the Company, \$40,000 (2008 - \$50,000) due to a company controlled by significant shareholders and \$12,000 (2008 - Nil) due to a company controlled by a director of the Company.

Included in capital stock is \$42,693 (2008 - \$72,480) of share issuance costs for fees paid to the Company's legal counsel who is a director of the Company.

Included in professional and consulting fees are \$128,349 (2008 - \$123,607) of fees paid to the Company's legal counsel who is a director of the Company, \$72,500 (2008 - \$50,000) in management fees to a company controlled by significant shareholders and \$7,500 (2008 - Nil) paid to a company controlled by a director of the Company.

Included in office and general are \$47,516 (2008 - \$35,009) in payments to a company controlled by significant shareholders, related to rent and reimbursements.

1.10 Commitments and Contingencies

Pursuant to the flow through share issuance (see Note 6(i) to the Financial Statements) in the prior year the company renounced to its investors certain expenditures in accordance with the look-back rules under the Income Tax Act ("the Act"). As a result, the Company was committed to incurring approximately \$1,861,000 of Canadian Exploration Expenditures prior to December 31, 2008. The Company did not incur the required amount of Canadian Exploration Expenditures by December 31, 2008 and as a result has incurred a Part XII.6 tax in the approximate amount of \$75,000. In addition the qualification of the eligibility of the Canadian Exploration Expenditures, including amounts funded to and then expended by the optionors of the Van Koughnet Townships claims (see Note 4(iii) to the

Financial Statements), which were renounced in relation to the flow through share issuance at (Note 6(i) to the Financial Statements) are in the normal course of business subject to review by the Canada Revenue Agency (“CRA”). If these expenditures were denied by the CRA under review the Company would incur penalties and would be required to amend certain of its tax filings with its flow through share investors.

1.11 Twelve Months ended June 30, 2009

In the twelve months ended June 30, 2009 there were no material events or items that affected the Company’s financial condition, cash flows or results of operations, including extraordinary items, year-end adjustments other than disclosed herein and there were no dispositions of business segments.

1.12 Proposed transactions

There are no proposed transactions other than described herein.

1.13 Critical Accounting Estimates

This item is not applicable as the Company is a venture issuer.

1.14 Changes in Accounting Policies including Initial Adoption

During the year, the Company adopted the following new accounting standard issued by the Canadian Institute of Chartered Accountants:

Effective July 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Section 1535, Capital Disclosures (“Section 1535”). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 13 to the Financial Statements for year ended June 30, 2009.

Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 14 to the Financial Statements for the year ended June 30, 2009.

Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation (“Section 3863”). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company’s financial instrument related presentation disclosures.

Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity’s ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet dates. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.

Recent Accounting Pronouncements Issued and Not Yet Applied

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (“CICA 3064”). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company’s interim and annual financial statements for periods commencing July 1, 2009. The Company is assessing the impact of the new standard on its financial statements.

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company’s financial statements is not yet determinable.

1.15 Financial Instruments and Other Instruments

Financial Instruments

The recommendations in Section 3855 establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

Held for trading assets are measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are measured at amortized cost using the effective interest rate method.

Loans and receivables are measured at amortized cost using the effective interest rate method.

Available-for-sale assets are measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial liabilities

Held for trading liabilities are measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are measured at amortized cost using the effective interest rate method.

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as

hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Held for trading
Due from agent	Loans and receivables
Reclamation bond	Held for trading
Accounts payable and accrued liabilities	Other liabilities

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Mining Properties and Deferred Exploration Costs

All direct costs related to the acquisition and exploration and development of specific properties are capitalized as incurred. If a property is brought into production, these costs will be amortized against the income generated from the property. If a property is abandoned, sold or impaired, an appropriate charge will be made. Discretionary option payments arising on the acquisition of mining properties are only recognized when paid. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration costs, except for administrative reimbursements which are credited to operations.

The amounts shown for mining claims and related deferred costs represent costs incurred to date, less amounts expensed and reimbursements, and do not necessarily reflect present or future values of the particular properties. The recoverability of these costs is dependent upon discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

- Impairment

On a periodic basis, management reviews the carrying values of mining property acquisition and deferred exploration expenditures to assess whether there has been any impairment in value. In the event that management determines the carrying values of any mining property to be permanently impaired, the carrying value will be written down or written off, as appropriate.

- Title

Ownership in mineral properties involves certain risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated the ownership of its mineral properties and, to the best of its knowledge, ownership of its interests are in good standing.

Restoration Liability

The cost of restoration liabilities are estimated each year by management based upon current regulations and industry practice. As a result of the Company's exploration activities management has estimated the amount of the restoration liability based on the expected cost to return the area to its original condition. A corresponding increase is made to the mineral claims and deferred exploration costs.

Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Income Taxes and Flow Through Shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized, thereby reducing share capital.

If a company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, such unrecognized losses are recorded as income to the extent that the future income tax liabilities relating to the issuance of flow through shares are expected to reverse in the loss carry forward period.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Loss Per Share

Basic loss per share is calculated based on the weighted average number of shares outstanding. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

Basis of Consolidation and Joint Ventures

A portion of the Company's exploration activities are conducted jointly with others. Expenditures on properties reflect the Company's proportionate interest in mineral properties. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Drumlummon Gold Mines LLC and its proportionate share of assets and liabilities in its 50% owned joint venture, Maryville Milling and Mining LLC.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Areas requiring significant estimates by management are valuation of stock based compensation, allocation of proceeds to warrants on share issuances and the value of mining claims and deferred exploration expenditures. Actual results could differ from those estimates.

1.16 Controls and Procedures

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 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 period covered by this MD&A, management believes its internal controls and procedures, for the nature and size of the entity, are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, is made known to the Company's certifying officers. Management has evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that these controls and procedures are effective, for the nature and size of the entity, in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

1.17 Other MD&A Requirements

During the twelve months ended June 30, 2009 and the subsequent period to date, management of the Company focused its efforts, along with its joint venture partners, on the exploration of its Claims as

described above. Subject to management's continuing ability to raise equity capital the Company expects to conduct, with its joint venture partners, further exploration programs on the Claims. (See: "Capital Resources").

Share Data: 73,272,578 shares issued at October 23, 2009. Additional information relating to the Company is available on SEDAR @ www.sedar.com.