

RX Exploration Inc.
(A Development Stage Company)

Consolidated Financial Statements

(All figures in Canadian dollars, unless otherwise stated)

For the Years Ended June 30, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
RX Exploration Inc.
(A Development Stage Company)

We have audited the consolidated balance sheets of RX Exploration Inc. as at June 30, 2011 and 2010 and the consolidated statements of operations and deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
October 20, 2011
Toronto, Ontario

RX Exploration Inc.
(A Development Stage Company)
Consolidated Balance Sheets
As at June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

	2011	2010
Assets		
Current		
Cash	\$ 838,464	\$ 1,697,666
Short-term investments (Note 4)	7,095,000	3,000,000
Amounts receivable	133,605	359,950
Due from agents (Note 5)	-	300,000
Prepaid expenses and sundry assets (Note 20)	368,874	289,293
	8,435,943	5,646,909
Long-term investments (Note 6)	1,466,152	-
Plant and equipment (Note 7)	2,033,505	731,768
Mining claims and deferred exploration costs (Notes 8 and 20)	26,567,040	14,458,182
Reclamation bonds (Note 9)	29,285	15,953
	\$ 38,531,925	\$ 20,852,812
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 20)	\$ 2,977,615	\$ 1,182,751
Restoration liabilities (Note 9)	29,285	15,953
	3,006,900	1,198,704
Shareholders' Equity		
Capital stock (Notes 10 and 20)	37,688,220	15,341,808
Contributed surplus (Note 11)	9,179,290	3,036,306
Share purchase warrants (Note 12)	1,392,615	11,051,540
Shares to be issued (Note 13)	-	291,186
Deficit	(12,735,100)	(10,066,732)
	35,525,025	19,654,108
	\$ 38,531,925	\$ 20,852,812
Nature of operations (Note 1)		
Contingencies (Note 21)		
Subsequent events (Note 22)		

Approved by the Board "Darren Blasutti"
Director (Signed)

 "Paul Parisotto "
Director (Signed)

RX Exploration Inc.
(A Development Stage Company)
Consolidated Statements of Operations and Deficit
Years Ended June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

	2011	2010
Expenses		
Office and general (Note 20)	\$ 1,641,718	\$ 430,324
Professional and consulting fees (Note 20)	1,423,078	754,929
Stock-based compensation (Note 15)	54,449	1,288,548
(Recovery) write-off of deferred exploration costs (Notes 6 and 8(b))	(1,423,466)	2,106,208
Delayed listing penalty (Note 10(d))	-	160,650
Proxy costs (Note 19)	1,217,466	-
Loss before the undernoted item	(2,913,245)	(4,740,659)
Investment income	244,877	1,767
Net loss	(2,668,368)	(4,738,892)
Deficit, beginning of year	(10,066,732)	(3,508,890)
Modification of share purchase warrants (Note 12(i))	-	(1,818,950)
Deficit, end of year	\$(12,735,100)	\$(10,066,732)

Loss per share

Basic and diluted	\$ (0.019)	\$ (0.055)
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Weighted average number of common shares outstanding

Basic and diluted	143,038,372	85,468,474
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RX Exploration Inc.
(A Development Stage Company)
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

	2011	2010
Cash provided by (used in)		
Operations		
Net loss	\$ (2,668,368)	\$ (4,738,892)
Items not affecting cash		
(Recovery) write-off of deferred exploration costs (Notes 6 and 8(b))	(1,323,466)	2,106,208
Stock-based compensation (Note 15)	54,449	1,288,548
Delayed listing penalty (Note 10(d))	-	160,650
Accretion of promissory note receivable (Note 6)	(142,686)	-
	(4,080,071)	(1,183,486)
Net changes in non-cash operating working capital items		
Amounts receivable	226,345	(359,950)
Prepaid expenses and sundry assets	(79,581)	(252,726)
Reclamation bonds	(13,332)	18,310
Accounts payable and accrued liabilities	1,794,864	482,510
	(2,151,775)	(1,295,342)
Investing		
Addition of short-term investments	(11,795,000)	(3,000,000)
Redemption of short-term investments	7,700,000	-
Acquisition of plant and equipment	(1,526,703)	(731,768)
Acquisition of mining claims and deferred exploration costs	(19,633,224)	(6,306,095)
Proceeds from test mining	7,908,083	368,000
	(17,346,844)	(9,669,863)
Financing		
Issuance of capital stock (net of issuance costs) (Note 10)	18,639,417	12,650,074
	18,639,417	12,650,074
Net change in cash	(859,202)	1,684,869
Cash, beginning of year	1,697,666	12,797
Cash, end of year	\$ 838,464	\$ 1,697,666

1. NATURE OF OPERATIONS

RX Exploration Inc. (the "Company") was incorporated November 13, 1981 under the Business Corporations Act (Ontario). The Company is a gold and silver mining company focused on growth in North America. Currently, the Company is concentrating on continuing test mining and expanding development at the Drumlummon mine.

The Company's principal assets are mining claims and deferred exploration costs made with respect to properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves. The amounts shown for mining claims and deferred exploration costs represent expenditures incurred to date and do not reflect present or future values. The recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and future profitable production.

In May 2010, the Company began extracting gold and silver bearing rock from its Hard Rock mining claims in Marysville, Montana and received settlements of approximately \$367,974 (\$350,682 USD) net of smelting and refining charges in the year-ending June 30, 2010 and approximately \$7,908,083 (\$7,750,081 USD) for the year-ending June 30, 2011 net of MML Tax (Metalliferous Mines License Tax) and NSR (Net Smelter Return). These settlements were received as a result of the Company's test mining operations. Test mining is a phase of the exploration and development of a mine whereby a company is determining the quality of ore and the economic viability of extraction of that ore. Accordingly the receipt of these settlements has not resulted in the Company being considered to be in production and therefore the Company remains in the development stage at June 30, 2011.

Effective August 4, 2010, the Company was listed on the TSX Venture Exchange and is no longer listed on the Canadian National Stock Exchange. Effective October 27, 2010, the Company was listed on OTCQX International.

2. SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management who are responsible for their integrity and objectivity. These accounting policies conform to Canadian generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements.

Basis of Presentation

The consolidated financial statements include the accounts of RX Exploration Inc. and its wholly-owned subsidiaries, Drumlummon Gold Corp., Drumlummon Ltd., Bald Butte Ltd. and RX Mining Corp.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 Company's proportionate share of assets and liabilities in its 50% owned joint venture, Marysville Milling and Mining LLC ("MMM"). Currently, MMM only owns the Placer Claims (Note 8(c)) and does not have any other assets, liabilities, commitments or contingencies.

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 options and warrants, economic useful lives of depreciable assets for purposes of calculating amortization, impairment and valuation of the promissory note receivable, impairment and valuation of mining claims and deferred exploration costs, determination and measurement of restoration liabilities and valuation allowance for future income taxes. Actual results could differ from those estimates, and the difference could be material.

Stock-Based Compensation and Other Stock-Based Payments

The Company accounts for stock options granted to directors, officers, and employees using the fair value method of accounting and for non-employees using the fair value of the equity instruments issued or the value of the services, whichever is more reliably measurable. Stock-based compensation cost for directors, officers, and employees is accrued and charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. Stock-based compensation cost for non-employees is measured at the earliest date at which performance is complete or the options vested, and is expensed over the service period with an offsetting credit to contributed surplus. In the event that vested stock options expire without being exercised, previously recognized compensation costs associated with such rewards are not reversed. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

Mining Claims 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 and development costs, except for administrative reimbursements which are credited to operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining Claims and Deferred Exploration Costs (Cont'd)

Consequential revenue from the sale of gold and silver equivalent, extracted during the Company's test mining activities, is recognized on the date the mineral concentrate level is agreed upon by the Company and customer, as this coincides with the transfer of title, the risk of ownership, the determination of the amount due under the terms of settlement contracts the Company has with its customer, and collection is reasonably assured. Revenues from properties earned during the development stage (prior to commercial production) are deducted from capitalized costs.

Precious metal inventory consisting of gold and silver bullion, gold and silver contained in the milling circuit and in stockpiled ore on surface, are valued at the lower of cost and net realizable value, and is measured at the average production cost for extraction and is relieved on a first-in, first-out basis. Production costs include direct labour, benefits, direct materials and other direct production costs, including depletion and amortization.

The amounts shown for mining claims and related deferred costs represent costs incurred to date, less amounts expensed or written off, reimbursements and revenue, 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.

The Company reviews the carrying value of a mineral exploration property when events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value of the property exceeds its fair value, the property will be written down to fair value with the provision charged against operations in the year. An impairment is also recorded when management determines that it will discontinue exploration or development on a property or when exploration rights or permits expire. The amount shown for deferred exploration expenses, represents costs incurred to date net of write-downs, if any, and is not intended to reflect present or future values. Management considers the guidance in EIC-174, Mining Exploration Costs, when determining whether or not its mining properties are impaired.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Plant and Equipment

Plant and equipment are stated at cost, less accumulated amortization. Amortization is recorded using the straight-line method based on the following estimated useful lives:

Shop building	-	9 years
Water plant	-	9 years
Exploration equipment	-	5 years
Computer software	-	3 years

The Company monitors the recoverability of its plant and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If such undiscounted cash flows are less than the carrying value, the impairment charge to be recognized equals the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is generally measured equal to the estimated future discounted net cash flows from the assets.

Restoration Liabilities

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the restoration liability. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures.

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 or substantively 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 consolidated financial statements if realization is considered more likely than not.

Flow-Through Shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. The Emerging Issues Committee of the Canadian Institute of Chartered Accountants issued EIC-146 under which the Company is required to recognize the future income tax liability upon filing renunciation documents with the tax authorities and to treat it as a cost of issuing the flow-through shares.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Issuance Costs

Costs incurred in connection with the issuance of capital stock and share purchase warrants 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.

Valuation of Equity Instruments in Private Placements

The Company has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placement units. Warrants attached to units are valued based on relating the fair value of the warrants using the Black-Scholes method and the share price at the time of the financing.

Foreign Currency Translation

The Company's wholly-owned subsidiaries, Drumlummon Gold Corp., Drumlummon Ltd., Bald Butte Ltd. and RX Mining Corp., are treated as integrated foreign operations. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

The Company follows the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement. Section 3855 provides that 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 loss during the year.

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. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost.

Financial liabilities

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

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

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Short-term investments	Held for trading
Amounts receivable	Loans and receivables
Due from agents	Loans and receivables
Investment in Argentium Resources Inc.	Available-for-sale
Promissory note receivable	Loans and receivables
Reclamation bonds	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Restoration liabilities	Other liabilities

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Cash is considered level 1.

Transaction costs are expensed as incurred for financial instruments classified as held for trading. For other financial instruments, transaction costs are expensed on initial recognition. The Company accounts for regular purchases and sales of financial assets using trade date accounting.

Comprehensive Income

The Company follows the recommendations of CICA Handbook Section 1530, Comprehensive Income. 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 loss 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 other comprehensive income and accumulated other comprehensive income has not been presented.

3. RECENT ACCOUNTING PRONOUNCEMENT ISSUED AND NOT YET APPLIED

International financial reporting standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own Generally Accepted Accounting Principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

4. SHORT-TERM INVESTMENTS

Short-term investments consist of cashable Guaranteed Investment Certificates ("GIC") with a Canadian Chartered Bank. The two GIC's consist of \$7,000,000 bearing interest at 1.20% per annum, redeemable by November 21, 2011 and \$95,000 bearing interest at 0.75% per annum, redeemable by December 6, 2011.

5. DUE FROM AGENTS

Due from agents relates to proceeds receivable from units issued or amounts due from an individual for warrants exercised.

6. LONG-TERM INVESTMENTS

The Company entered into a settlement agreement dated November 29, 2010 (the "Agreement") with its former private arms' length joint venture partners to settle and restructure their unpatented mining claim holdings in Van Koughnet Township, Ontario (Note 8(b)). The claims consisted of two properties, the Sill Lake silver-lead prospect and the Goulet River copper prospect. Pursuant to the Agreement, the Sill Lake claims were transferred to Argentium Resources Inc., a private arms' length Canadian company, and the Goulet River claims were transferred to the Company.

The Company was paid the sum of \$100,000, received 1,000,000 common shares of Argentium Resources Inc. and was given a non-interest bearing promissory note receivable containing a promise to pay the further sum of \$1,901,300 on November 29, 2013, secured by the Sill Lake claims and other assets.

The fair value of the common shares was estimated to be \$350,000 at the date of the Agreement. In the absence of a quoted market price in an active market, the common shares are held at cost as of June 30, 2011. Argentium Resources Inc. was listed on the Canadian National Stock Exchange during September 2011.

The Company estimated the fair value of the promissory note receivable using a discounted cash flows analysis. The Company assumed a discount rate of 25% based on the prevailing market rates of interest for similar instruments. The difference between the face value of \$1,901,300 and the estimated fair value of \$973,466 at the date of the Agreement will be accreted using the effective interest rate method at a rate of 25%.

As a result of the Agreement, the Company recorded a recovery of deferred exploration costs of \$1,423,466 in the Statements of Operations and Deficit.

Long-term investments consist of the following:

	2011
Common shares	\$ 350,000
Promissory note receivable	1,116,152
Balance, end of year	\$ 1,466,152

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

7. PLANT AND EQUIPMENT

June 30, 2011

	Cost	Accumulated Amortization	Net
Shop building	\$ 64,565	\$ 7,174	\$ 57,391
Water plant	463,143	51,460	411,683
Exploration equipment	1,685,161	151,132	1,534,030
Computer software	45,602	15,201	30,401
	\$ 2,258,471	\$ 224,967	\$ 2,033,505

June 30, 2010

	Cost	Accumulated Amortization	Net
Shop building	\$ 60,303	\$ -	\$ 60,303
Water plant	445,732	-	445,732
Exploration equipment	206,109	-	206,109
Computer software	19,624	-	19,624
	\$ 731,768	\$ -	\$ 731,768

8. MINING CLAIMS AND DEFERRED EXPLORATION COSTS

June 30, 2011

	2010	Additions	Write-offs	2011
Hard Rock Claims, MT ^(a)	\$ 13,992,379	\$ 11,900,673 ⁽ⁱ⁾	-	\$ 25,893,052
Van Koughnet Township Claims, ON ^(b)	-	5,243	-	5,243
Placer Claims, MT ^(c)	409,951	1,844	-	411,795
Bald Butte Claims, MT ^(d)	55,852	201,098	-	256,950
	\$ 14,458,182	\$ 12,108,858	\$ -	\$ 26,567,040

(i) Included in current year additions is \$11,419 representing the fair value of 100,000 options granted during the year to an individual who works on the mining claims estimated at the date of issue using the Black Scholes option pricing model (Note 15).

Netted in the current year additions total are also proceeds of \$7,908,083 (\$7,750,081 USD) received from settlements for gold and silver concentrate. This amount is net of Montana Metalliferous Mines License Tax of approximately \$146,059 (\$143,183 USD) and Net Smelter Royalties of approximately \$177,140 (\$168,254 USD).

Precious metal inventory at year-end included in the ending balance is approximately \$475,000.

RX Exploration Inc.
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Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

8. MINING CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

June 30, 2010

	2009	Additions	Write-offs	2010
Hard Rock Claims, MT ^(a)	\$ 7,582,079	\$ 6,410,300 ⁽ⁱⁱ⁾	\$ -	\$ 13,992,379
Van Koughnet Township Claims, ON ^(b)	2,089,719	16,489	2,106,208	-
Placer Claims, MT ^(c)	408,736	1,215	-	409,951
Bald Butte Claims, MT ^(d)	-	55,852	-	55,852
	\$ 10,080,534	\$ 6,483,856	\$ 2,106,208	\$ 14,458,182

(ii) Included in fiscal 2010 additions is \$564,071 representing the fair value of 2,275,000 options granted during the year to individuals who work on the mining claims estimated at the date of issue using the Black Scholes option pricing model (Note 15).

Netted in fiscal 2010 additions total are also proceeds of \$367,974 (\$350,682 USD) received from settlements for gold and silver concentrate.

Precious metal inventory at June 30, 2010 included in the ending balance is approximately \$212,000.

(a) Hard Rock Claims - Lewis and Clark County, Montana

In December, 2010, the Company closed an agreement with private arm's length owners to acquire 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. The Company holds approximately 2,320 acres including, 28 contiguous patented mining claims covering the Drumlummon Mine and adjacent unpatented mining claims. The Company has paid the sum of US\$1,200,000 to the Optionors. 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 Returns Royalty Agreement ("NSR") on the Drumlummon Claims was finalized on December 22, 2010. The Company has paid the NSR due up to June 30 2011.

(b) Van Koughnet Township - Sault Ste. Marie Mining Division, Ontario

Agreement A and B

On March 7, 2008, the Company entered into an agreement ("Agreement A") to acquire an undivided 50% working interest in 6 claims in the Sill Lake silver-lead prospect located in the Van Koughnet township in the Province of Ontario.

The Company also entered into two option agreements ("Agreement B") to acquire an undivided 50% working interest in 5 claims in the Goulet River copper prospect located in the Van Koughnet Township.

8. MINING CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

(b) Van Koughnet Township - Sault Ste. Marie Mining Division, Ontario (Cont'd)

During the prior fiscal year, there was a dispute between the Company and the optionors regarding the above agreements. The dispute was over administrative matters regarding the funding of the exploration work. A satisfactory resolution was not achieved during the year ended June 30, 2010 and given the uncertainty of the recoverability of the deferred exploration and development expenditures, a full impairment write down was taken in the amount of \$2,106,208.

During the year ended June 30, 2011, arbitration proceedings in regard to the dispute between the Company and its former private arms' length joint venture partners resulted in an agreement to settle and restructure the unpatented mining claim holdings in Van Koughnet Township Ontario. Pursuant to the agreement, the Sill Lake claims were transferred to Argentium Resources Inc., a private arms' length Canadian company, and the Goulet River claims were transferred to the Company. The Company also received additional consideration as outlined in Note 6.

(c) Placer Claims - Lewis and Clark County, Montana

On April 17, 2008 the Company entered into an agreement to purchase, from an arm's length party ("vendors"), a 100% interest in 14 patented mining claims situated in Lewis and Clark County in the State of Montana for \$636,625 (\$625,000 USD) (paid in fiscal 2009) and 350,000 common shares valued at \$0.45 each (issued in fiscal 2009) for a total fair value of \$157,500.

In exchange for a cash investment of \$3,000,000 made in fiscal 2008, the Company issued 7,500,000 units in the year ended June 30, 2008 and agreed to transfer this property into a newly formed entity ("MMM") in which the Company would have a 50% interest and the investor, Spruce Ridge Resources Ltd. ("SRR"), would have the remaining 50% interest. Of the \$3,000,000 financing provided by SRR, \$397,063 represented the amount related to their 50% interest in MMM which was reflected as a liability on the balance sheet for the year ended June 30, 2008. During fiscal 2009 this liability was applied against additions relating to this property. The property was transferred into MMM and is 50% owned by each party.

The Company does not have a minimum future expenditure commitment on the property. However, their 50% interest is subject to dilution if the Company does not participate pro-rata with the other co-owner on any future expenditures.

The vendors retain a 2% NSR on the tailings and a 3% gross royalty on the placer mineralization.

8. MINING CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

(d) Bald Butte Claims - Lewis and Clark County, Montana

On April 19, 2010, the Company entered into an agreement with an arm's length party, (the "optionors"), to lease with an option to purchase from them 100% of their interest in 22 patented mining claims (1 of the claims consists of less than 100% interest) and 50 unpatented mining claims ("Bald Butte Claims") situated in Lewis and Clark County in the State of Montana. The Company paid \$55,852 (\$55,000 USD) upon execution of this agreement. On April 12, 2011, the Company paid the first year anniversary payment of \$52,938 (\$55,000 USD).

The Company has the exclusive option to purchase the claims for \$5,000,000 USD at any point during the lease. If the option to purchase is exercised, all annual payments will be credited against this purchase price.

To earn 100% of the optionors' interest, the Company must make the following additional annual payments:

- Second year anniversary \$75,000 USD
- Third year anniversary \$100,000 USD
- Fourth year anniversary \$100,000 USD
- Fifth and each subsequent annual anniversary \$150,000 USD

In addition to the above payments the Company issued 200,000 common shares with an estimated fair value of \$134,000 to the optionors on October 25, 2010 (Note 10(e)).

The Company has agreed to pay a 2% NSR to the optionors.

(e) Thunder Bay Claims - Thunder Bay Mining Division, Ontario

- (i) On October 21, 2005, the Company acquired from Wabassi River Resources Inc. (the "Optionor") an option to earn a 50% interest in the Zulapa Interest ("Zulapa"). This claim is on land with rights held by a First Nations band, in the Province of Ontario. The option on Zulapa is contingent on the Optionor obtaining a signed agreement from the First Nations tribe approving any exploration activity on their land.
- (ii) Concurrently, the Company acquired an option to earn a 50% interest in 8 unpatented mining claims which are adjacent to the Zulapa claim, (totalling 108 claim units) from the Optionor in the Thunder Bay Mining Division in the Province of Ontario.

In order to maintain these options the Company is required to do the following:

- (i) pay \$5,500 to the Optionor upon signing of the option agreement (the "Agreement"), which was paid in the year ended June 30, 2006;
- (ii) incur expenditures of not less than \$150,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the first anniversary of the signing of the Agreement, of which sufficient expenditures must be recorded against the claims in each year to meet assessment requirements required to keep them in good standing;

8. MINING CLAIMS AND DEFERRED EXPLORATION COSTS (Cont'd)

(e) Thunder Bay Claims - Thunder Bay Mining Division, Ontario (Cont'd)

- (iii) incur further expenditures of not less than \$200,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the earlier of:
 - (I) the first anniversary of the Formal First Nation Agreement, if and when entered into; and
 - (II) the second anniversary of the signing of the Agreement;
- (iv) on or before the 60th day (the "Election Date") after receiving a comprehensive report on the results of the mining operations and after a minimum of \$350,000 in expenditures have been incurred, the Company shall be required to elect in writing whether or not it will proceed to earn its 50% interest in the claims and/or the Zulapa Interest. In the event that the Company exercises its right to proceed to earn its 50% interest in the claims and/or the Zulapa Interest, the Company shall:
 - (I) pay to the Optionor the sum of \$150,000 on or before the 30th day following the Election Date; and
 - (II) incur further expenditures of not less than \$1,150,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the second anniversary of the Election Date;
- (v) in the event that the Company has incurred expenditures of at least \$350,000, but does not elect to earn its 50% interest to the claims and/or the Zulapa Interest (see Note 8(iv)), the Company's interest or right to earn an interest in the claims and the Zulapa Interest shall be converted into a 10% interest in the claims and/or the Zulapa Interest.

The claims are subject to a 2% NSR which the Company can, at any time, repurchase one percent of the NSR for \$1,500,000.

The Company has paid the \$5,500 due on signing and incurred \$99,500 of exploration expenditures. The Company has not been able to meet its requirements under this arrangement as access to the land 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. The Optionor is aware that the Company has not been granted access to the claims resulting in their inability to meet the terms of the agreement. Management was working with the Optionor to obtain the required permissions.

Although management still intends on pursuing these claims, all deferred exploration and development expenditures were written off in the 2008 fiscal year due to the length of time which has passed since these costs were incurred as the Optionor has been unable to obtain the required permission to proceed from the First Nations band. During the year, the Optionor notified the Company that it is in default under the option agreement, which the Company is not in agreement. The Company is considering all of its legal remedies to enforce the terms of the option and compliance on the part of the Optionor.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

9. RECLAMATION BONDS

As at June 30, 2011, management estimated and accrued site restoration costs relating to their exploration programs for their mining claims in Montana. These costs are estimated by management and approved by the Montana Department of Environmental Quality ("MDEQ"). The Company is required to issue reclamation bonds with the MDEQ to cover the estimated site restoration costs. The reclamation bonds will be refunded to the Company once the MDEQ is satisfied with the site restoration work performed. The reclamation bonds equal the restoration liability as the bonds approximate the total cost to be incurred by the Company relating to site restoration work.

10. CAPITAL STOCK

Authorized
unlimited common shares

Issued

	Number of Shares	Amount
Balance at June 30, 2009	68,207,578	\$ 6,572,952
Units issued ^(a)	38,130,770	11,021,831
Options exercised ^(b)	1,400,000	728,372
Warrants exercised ^(c)	2,742,483	1,361,209
Delayed listing penalty shares issued ^(d)	535,500	160,650
Allocated to warrants ^(a)	-	(3,181,112)
Share issue costs ^(a)	-	(1,322,094)
Balance at June 30, 2010	111,016,331	\$ 15,341,808
Shares issued as payment for interest in mining claims ^(e)	200,000	134,000
Options exercised ^(f)	475,000	282,890
Warrants exercised ^(g)	48,632,899	22,067,947
Shares issued for warrants exercised in prior year ^(h)	375,000	291,186
Share issue costs ^(g)	-	(429,611)
Balance at June 30, 2011	160,699,230	\$ 37,688,220

(a) During the prior year, the Company raised gross proceeds of \$11,021,831 by issuing units as follows:

- (i) 38,130,770 units were issued for gross proceeds of \$11,021,831. Each unit consisted of one common share and one warrant. The warrants entitle the holder to purchase a common share at prices ranging from \$0.40 to \$0.70 for a period of two years. The amount allocated to the warrants issued was \$3,469,419 (Note 12).
- (ii) Share issue costs of \$1,322,094 have been netted against the proceeds. Included in share issue costs is \$693,102 (Note 12) representing the fair value of 2,648,891 broker warrants issued in connection with the above financing and \$198,535 (Note 12) representing the allocation of share issue costs for warrants included in units issued.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

10. CAPITAL STOCK (Cont'd)

- (b) During the prior year, 1,400,000 stock options were exercised into common shares at exercise prices ranging from \$0.25 to \$0.32 for gross proceeds of \$413,000. The fair value of these options exercised was \$315,372 (Note 11).
- (c) During the prior year, 2,742,483 warrants were exercised into common shares at exercise prices ranging from \$0.15 to \$0.40 for gross proceeds of \$991,160. The fair value of these warrants exercised was \$370,049 (Note 12).
- (d) During the prior year, 535,500 shares were issued to arm's length shareholders who purchased securities on June 30, 2009 and July 8, 2009. These shareholders were entitled to receive up to an additional 10% of the number of common shares purchased if the Company was not listed on the Toronto Stock Exchange ("TSX") or TSX Venture Exchange within four months of the closing of the financings. The shares are valued at the Company's share price per the Canadian National Stock Exchange four months after the closing of the financings. The share price was \$0.30 on October 30, 2010 and November 8, 2010 which resulted in a total value of \$160,650. The value of \$160,650 attributed to these shares was expensed and included in share capital.
- (e) On October 25, 2010, the Company issued 200,000 common shares at an estimated fair value of \$0.67 per share as an option payment for the Bald Butte Property (Note 8(d)).
- (f) During the year, 475,000 stock options were exercised into common shares at exercise prices ranging from \$0.25 to \$0.50 for gross proceeds of \$170,500. The fair value of these options exercised was \$112,390 (Note 11).
- (g) During the year, 48,632,899 warrants were exercised into common shares at exercise prices ranging from \$0.20 to \$0.40 for gross proceeds of \$18,598,528. The fair value of these warrants exercised was \$3,469,419 (Note 12). Share issue costs of \$429,611 were incurred.
- (h) On July 5, 2010, 375,000 shares were issued for warrants that were exercised on June 28, 2010 at the exercise price of \$0.40 for gross proceeds of \$150,000. The fair value of these warrants exercised was \$141,186 (Note 13).

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2011	2010
Balance, beginning of year	\$ 3,036,306	\$ 993,163
Stock-based compensation expense (Note 15)	65,868	1,852,619
Stock options exercised (Note 10(f))	(112,390)	(315,372)
Warrants expired (Note 12)	6,189,506	505,896
Balance, end of year	\$ 9,179,290	\$ 3,036,306

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

12. SHARE PURCHASE WARRANTS

The following summarizes the change in share purchase warrants:

	2011	2010
Balance, beginning of year	\$ 11,051,540	\$ 6,574,042
Warrants issued (Note 10(a))	-	3,874,214
Warrants extended in term ⁽ⁱ⁾	-	1,818,950
Warrants exercised allocated to share capital (Notes 10(c) and (g))	(3,469,419)	(370,049)
Warrants exercised - shares to be issued (Note 13)	-	(141,186)
Warrants expired allocated to contributed surplus (Note 11)	(6,189,506)	(505,896)
Allocation of share issue costs for warrants included in units issued (Note 10(a))	-	(198,535)
Balance, end of year	\$ 1,392,615	\$ 11,051,540

- (i) During the prior year 12,500,000 warrants with expiry dates ranging from April 3, 2010 to June 30, 2010 were extended in term for a further 12 months from their respective original expiry dates, all other terms remained unchanged. The incremental fair value of the warrants extended in life during the year, estimated at the date of their respective original expiry using the Black-Scholes option pricing model, was \$1,818,950; 375,000 warrants are held by a director of the Company and 7,500,000 warrants are held by SRR, a joint venture partner to the Placer Claims, whose president is also a director.

The fair value of the warrants issued in the prior year was estimated at the date of issue or the date when it became measurable using the Black-Scholes option pricing model.

During the prior year, the share purchase warrants consist of regular warrants and broker warrants. The weighted average fair value of the warrants issued during the prior year was estimated at \$0.10 using the Black-Scholes option pricing model with the following assumptions: (a) dividend yield of 0%; (b) expected volatility of 91% to 128%; (c) risk-free interest rate of 1.21% to 1.82% and; (d) expected life of 1 to 2 years.

During the prior year, the warrants extended in term by 1 year from their original respective expiry dates resulted in an incremental fair value of \$1,818,950 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 92% - 101%; (c) risk free interest rate of 1.45% - 1.81% and; (d) expected life of 1 year.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

13. SHARES TO BE ISSUED

Shares to be issued related to 375,000 warrants exercised on June 28, 2010 at a price of \$0.40 for gross proceeds of \$150,000. The shares were issued from treasury on July 5, 2010. The total fair value of the warrants exercised, estimated at the date of grant using the Black-Scholes pricing model, was \$141,186 (Note 10(h)).

	2011	2010
Warrants exercised	\$ -	\$ 150,000
Fair value ascribed to warrants exercised	-	141,186
Balance, end of year	\$ -	\$ 291,186

14. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company has a formal stock option plan (the "Plan"). Under the terms of the Plan, the aggregate number of shares reserved for issuance, together with any other share compensation arrangements, shall not exceed 10% of the Company's issued and outstanding common shares at the time of grant. The maximum number of common shares reserved for issuance to any one participant during any one year period shall not exceed 5% of the total number of common shares issued and outstanding at the time of grant. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. Vesting terms of options granted is at the discretion of the board.

The following summarizes the stock option activities:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	8,170,000	\$0.40	4,700,000	\$0.33
Granted (Note 15)	200,000	\$0.53	5,770,000	\$0.44
Exercised (Notes 10(b) and (f))	(475,000)	\$0.36	(1,400,000)	\$0.30
Expired	(550,000)	\$0.49	(900,000)	\$0.53
Exchanged (Note 15)	-	\$ -	(1,600,000)	\$0.32
Replaced (Note 15)	-	\$ -	1,600,000	\$0.32
Balance, end of year	7,345,000	\$0.40	8,170,000	\$0.40
Exercisable at end of year	7,136,667	\$0.39	8,020,000	\$0.39

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

14. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

The Company had the following stock options outstanding as of June 30, 2011:

Number of Options	Exercisable	Exercise Price	Expiry Date
300,000	300,000	\$ 0.15	November 10, 2011
1,200,000	1,200,000	\$ 0.25	January 28, 2012
100,000	100,000	\$ 0.25	February 4, 2012
620,000	620,000	\$ 0.44	January 8, 2013
1,800,000	1,800,000	\$ 0.32	January 29, 2013
2,900,000	2,900,000	\$ 0.50	April 22, 2013
225,000	150,000	\$ 0.60	June 3, 2013
200,000	66,667	\$ 0.53	April 14, 2014
7,345,000	7,136,667		

(b) Warrants

The following summarizes warrant activities:

	2011		2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	75,657,661	\$0.44	40,602,033 ⁽ⁱ⁾	\$0.44
Issued (Note 10(a))	-	\$ -	40,779,661	\$0.43
Exercised (Notes 10(c) and (g))	(48,632,899)	\$0.38	(3,117,483) ⁽ⁱⁱ⁾	\$0.37
Expired	(20,177,500)	\$0.52	(2,606,550)	\$0.66
Outstanding at year-end	6,847,262	\$0.59	75,657,661	\$0.44

(i) Included in this balance are 12,500,000 warrants with expiry dates ranging from April 3, 2010 to June 30, 2010 which were extended in term for a further 12 months from their respective original expiry dates during the prior year, all other terms remained unchanged (Note 12).

(ii) Included in this balance are 375,000 warrants exercised on June 28, 2010, but the shares were not issued from treasury until July 5, 2010 (Note 13).

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
 (All figures in Canadian dollars, unless otherwise stated)

14. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

The Company had the following warrants outstanding at June 30, 2011:

Number of Warrants	Exercise Price	Expiry Date
60,000	\$ 0.20	July 8, 2011
301,700 (i)	\$ 0.20	October 29, 2011
243,200 (i)	\$ 0.20	November 5, 2011
111,000 (i)	\$ 0.30	March 2, 2012
148,946 (i)	\$ 0.30	March 18, 2012
71,616 (i)	\$ 0.30	March 24, 2012
83,333 (i)	\$ 0.30	April 8, 2012
577,467 (i)	\$ 0.30	April 27, 2012
5,000,000	\$ 0.70	May 13, 2012
250,000 (i)	\$ 0.50	May 13, 2012
6,847,262		

(i) These are broker warrants in connection with the Company's financings.

15. STOCK-BASED COMPENSATION

During the year, the Company granted 200,000 options to employees and a consultant with an exercise price of \$0.53 and vests 1/3 immediately; 1/3 in 12 months and 1/3 in 24 months.

In the prior year, the Company granted 5,770,000 options to employees, directors and consultants with exercise prices ranging from \$0.32 - \$0.60. Of the options granted, 5,545,000 vested immediately and 225,000 vested 1/3 immediately; 1/3 in 12 months and 1/3 in 24 months.

The fair value of each option granted in the year has been estimated at the date of grant or the date when it became measurable using the Black Scholes option pricing model.

The total stock based compensation relating to options granted pursuant to the option plan recognized during the year ended June 30, 2011 was \$65,868 (2010 - \$1,852,619). Relating to this fair value, \$54,449 (2010 - \$1,288,548) was recorded as stock based compensation expense while \$11,419 (2010 - \$564,071) was capitalized to mining claims and deferred exploration costs.

The weighted average fair value of the options granted during the year was estimated at \$0.34 (2010 - \$0.28) using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0% (2010 - 0%); (b) expected volatility of 95% (2010 - 118% to 126%); (c) risk free interest rate of 1.89% (2010 - 1.79% to 2.87%) and; (d) expected life of 3 years (2010 - 3 to 3.3 years).

The 1,600,000 replacement options issued during fiscal 2010 resulted in an incremental fair value of \$231,130 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 126%; (c) risk free interest rate of 2.32% and; (d) expected life of 3.3 years.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

16. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in these financial statements:

	2011	2010
Loss before income taxes	\$ (2,668,368)	\$ (4,738,892)
Statutory rate	29.05 %	31.50 %
Expected income tax recovery	\$ (775,161)	\$ (1,492,751)
Change in tax rates and other	316,383	6,200
Share issue costs	(124,802)	-
Change in valuation allowance	948,130	1,003,940
Non-taxable portion of capital gains	(341,526)	-
Non-deductible expenses and other	(23,024)	482,611
Income tax expense (recovery)	\$ -	\$ -

(b) Future Income Taxes

The future income tax assets and future income tax liabilities arising from temporary differences are presented below:

	2011	2010
Future tax assets		
Amounts related to tax loss and credit carryforwards	\$ 1,497,810	\$ 1,631,910
Capital losses	125,320	125,320
Share issuance costs	282,340	292,980
	1,905,470	2,050,210
Future tax liabilities		
Mineral properties	455,290	(637,580)
Net future tax asset	2,360,760	1,412,630
Less: valuation allowance	(2,360,760)	(1,412,630)
	\$ -	\$ -

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

16. INCOME TAXES (Cont'd)

- (c) The Company has non-capital losses of approximately \$4,650,600 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2029	\$ 579,000
2030	1,597,000
2031	2,474,600
	<hr/>
	\$ 4,650,600

In addition, the Company has capital losses of \$1,002,600 which can be used against future taxable gains.

17. CAPITAL RISK MANAGEMENT

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

The Company includes equity, comprised of issued capital stock, share purchase warrants, contributed surplus, shares to be issued and deficit, in the definition of capital which totals \$35,525,025 at year end (2010 - \$19,654,108).

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its exploration and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants or by securing strategic partners.

The Company forecasts cash flows from operations and anticipated investing and financing activities to ensure that there is sufficient capital on hand to meet ongoing obligations. Senior management is also actively involved in the review and approval of planned expenditures. The Company's investment policy is to invest its cash in highly liquid short-term deposits with terms of one year or less and which can be liquidated after thirty days without interest penalty.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the twelve months ended June 30, 2011.

18. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (comprised of foreign exchange), fair value risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management, who is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with their approved policies.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2011 and 2010
(All figures in Canadian dollars, unless otherwise stated)

18. FINANCIAL RISK MANAGEMENT (Cont'd)

(a) Market Risk

The Company is exposed to foreign exchange risk from various currencies, primarily US dollars. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company's main objective in managing its foreign exchange is to maintain US cash on hand to support US forecasted cash flows over a 12 month horizon. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the currency of cash held.

As at June 30, 2011 and 2010, the Company is exposed to currency risk through the following financial assets and liabilities denominated in US dollars:

	2011	2010
Cash	\$ 858,956	\$ 686,256
Amounts receivable	\$ 81,654	\$ 289,483
Prepaid expenses and sundry assets	\$ 58,876	\$ 94,372
Reclamation bonds	\$ 17,504	\$ 15,700
Accounts payable and accrued liabilities	\$ 2,326,519	\$ 762,212

The above balances were translated into Canadian dollars at the year-end rate of \$0.9645 US dollars to every Canadian dollar (2010 - \$1.0646).

Based on the above net exposures as at June 30, 2011, and assuming that all other variables remain constant, a 5% change in the value of the US dollar against the Canadian dollar would result in an increase/decrease of approximately \$65,437 in the loss from operations (2010 - \$16,200).

18. FINANCIAL RISK MANAGEMENT (Cont'd)

(b) Fair Value Risk

Fair value represents the amounts at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods.

The carrying values of cash, short-term investments, amounts receivable, due from agents, and accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments.

The carrying value of the investment in Argentium Resources Inc. approximate its fair value based on a recent common share transaction.

The carrying value of the promissory note receivable approximates its fair value, as calculated using a 25% discount rate, which is the rate originally used for valuation purposes. It would be equally reasonable to use a discount rate of 20% or 30%. The resulting fair values do not vary significantly using these alternative assumptions.

The carrying value of the reclamation bond and reclamation liabilities approximate its fair value as the amount is reassessed annually by the MDEQ.

(c) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash, short-term investments, amounts receivable, due from agents and promissory note receivable. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions. The Company assesses its credit risk based on general market knowledge and specific information obtained through its business relationships with each customer. The amounts receivable and amounts due from agents were received subsequent to June 30, 2011 and 2010 as applicable. The Company estimates that the promissory note receivable will be paid in full upon maturity or the value of its security, the Sill Lake claims (Note 6), will be sufficient to yield a full recovery of the principal.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as outlined in Note 17.

As at June 30, 2011, the Company has current liabilities of \$2,977,615 (2010 - \$1,182,751) due within 12 months and has cash, short-term investments, amounts receivable, and due from agents which total \$8,067,069 (2010 - \$5,357,616) to meet its current obligations. As at June 30, 2011 the Company has a working capital surplus of \$5,458,328 (2010 - \$4,464,158). Management will continue to raise capital to fund the Company's exploration, development and feasibility expenditures and for general and administrative costs.

19. PROXY COSTS

During fiscal 2011 a group of shareholders, including the Company's former management and two former board members, filed a dissident proxy circular in an attempt to seize control of the Company. In response, the Board members not associated with the dissidents, formed a Special Committee. The Special Committee proposed an alternative slate of directors (the "Nominees") and a new management team in an amendment to the Company's management information circular dated June 12, 2011. At the annual meeting on July 6, 2011, a majority of all voted shares were cast for the Nominees. As a result of this vote, the Independent Chairman declared the Nominees elected as the directors. The Company incurred incremental professional fees totalling \$1,217,466 in connection with the proxy contest consisting of legal, accounting, communication and proxy solicitation fees.

20. RELATED PARTY TRANSACTIONS

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:

In prior year, prepaid expenses and sundry assets included an advance of \$186,250 paid to a former officer of the Company.

Included in mining claims and deferred exploration costs are \$3,120 (2010 - \$4,959) of fees paid to the Company's former legal counsel who is a director of the Company.

Included in accounts payable and accrued liabilities is \$51,272 (2010 - \$108,800) due to the Company's former legal counsel who is a director of the Company.

Included in capital stock is \$45,173 (2010 - \$111,585) of share issuance costs for fees paid to the Company's former legal counsel who is a director of the Company.

Included in professional and consulting fees are \$128,503 (2010 - \$110,893) of fees paid to the Company's former legal counsel who is a director of the Company, \$300,000 (2010 - \$240,000) in management fees to a company controlled by former directors of the Company and \$17,500 (2010 - \$7,500) of consulting fees paid to a company controlled by a former director of the Company.

Included in office and general is \$10,386 (2010 - \$63,475) of fees paid to a company controlled by former directors of the Company, for rent and office expenses, and \$11,232 (2010 - \$17,132) of fees paid to a company controlled by a director of the Company.

21. CONTINGENCIES

- (a) Pursuant to a flow-through share issuance of 3,722,000 flow-through units in fiscal 2008, 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, incurred Part XII.6 tax in the approximate amount of \$87,000, this balance is included in accounts payable and accrued liabilities. 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 (Note 8(b)), which were renounced in relation to the flow-through share issuance, 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 their review, the Company would incur penalties and would be required to amend certain tax filings with its flow-through share investors.
- (b) In the normal course of operations, certain contingencies may arise relating to legal actions undertaken against the Company. In the opinion of management, the outcome of such potential legal actions will not have a material adverse effect on the Company's results of operations, liquidity or its financial position.

22. SUBSEQUENT EVENTS

- (a) On July 6, 2011 the Company elected a new board of directors ("New Board") at its annual general and special meeting (the "Meeting"). The New Board consists of the following directors nominated by management of the Company as set forth in the amendment to the management information circular dated June 12, 2011: Hugh Agro, Darren Blasutti, Alex Davidson, Louis Dionne, John F. O'Donnell, Paul Parisotto, John Ryan and Lorie Waisberg. The Company also announced that, at a meeting of the New Board following the Meeting, the New Board made the following appointments: Lorie Waisberg was appointed as Chairman, The New Board also approved the termination of former management.
- (b) On July 6, 2011, the New Board (other than Messrs. O'Donnell and Ryan) and Jim Atkinson were granted an aggregate of 6,800,000 stock options at a strike price of \$0.49 per common share pursuant to the Company's stock option plan. One-third of the options are for a term of two years, with the balance for a term of five years, and all options vested at the time of the grant.
- (c) On July 20, 2011 the Company announced that it completed its previously announced non-brokered private placement of 5,000,000 units at a price of \$0.456 per unit for gross proceeds of \$2,280,000. Each unit is comprised of one common share and one common share purchase warrant, and each such warrant entitles the holder thereof to purchase one additional common share at a price of \$0.60 for a two year period beginning on the date that the units were issued. All of the units are subject to a four month hold period expiring November 21, 2011. The New Board subscribed for 3,400,000 of the units issued pursuant to the private placement.
- (d) On August 17, 2011 the Company announced the appointments of Robert M. Taylor as Chief Operating Officer and Warren Varga as Chief Financial Officer. Mr. Varga replaced John Ryan, who served as interim Chief Financial Officer during the proxy contest and is currently a director of the Company.
- (e) On September 13, 2011 the Company announced the grant of stock options to certain officers, employees and consultants of the Company. A total of 1,100,000 stock options were granted pursuant to the Company's stock option plan: 600,000 were granted to senior officers (other than the Chief Executive Officer); 200,000 were granted to employees; and 300,000 were granted to a consultant. All options vested immediately and have a strike price of \$0.55. One-third of the options have a term of two years, and the balance have a term of five years.
- (f) On October 4, 2011, a total of 2,740,000 options expired pursuant to termination notices to consultants and the Company's former management.