

# **RX Exploration Inc.**

## **Unaudited Interim Consolidated Financial Statements**

(All figures in U.S. dollars, unless otherwise stated)

**For the Three Month Periods Ended September 30, 2011 and 2010**

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim consolidated financial statements of RX Exploration Inc. are the responsibility of the management and Board of Directors of the Company.

The unaudited interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Darren Blasutti", CEO  
Darren Blasutti

"Warren Varga", CFO  
Warren Varga

### **NOTICE TO READER**

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim consolidated financial statements for the three months ended September 30, 2011 have not been reviewed by the Company's auditors.

**RX Exploration Inc.**  
**Unaudited Interim Consolidated Statements of Financial Position**  
(All figures in U.S. dollars, unless otherwise stated)

| <b>As at</b>                                      | <b>September 30,<br/>2011</b> | June 30,<br>2011 | July 1,<br>2010 |
|---|-------------------------------|------------------|-----------------|
| <b>Assets</b>                                     |                               | (Note 3)         | (Note 3)        |
| <b>Current</b>                                    |                               |                  |                 |
| Cash  | \$ 2,805,136                  | \$ 869,319       | \$ 1,594,618    |
| Other financial assets (Note 5)                   | 90,630                        | 7,356,096        | 2,817,900       |
| Trade and other receivables (Note 22)             | 1,787,386                     | 138,522          | 338,101         |
| Due from agents                                   | -                             | -                | 281,790         |
| Prepaid expenses and sundry assets                | 242,836                       | 382,449          | 271,733         |
|   | <b>4,925,988</b>              | 8,746,386        | 5,304,142       |
| <b>Long-term investments (Note 6)</b>             | <b>1,789,619</b>              | 1,520,106        | -               |
| <b>Plant and equipment (Note 7)</b>               | <b>2,847,547</b>              | 2,020,469        | 687,350         |
| <b>Reclamation bonds (Note 9)</b>                 | <b>28,240</b>                 | 30,363           | 14,985          |
|   | <b>\$ 9,591,394</b>           | \$ 12,317,324    | \$ 6,006,477    |
| <b>Liabilities</b>                                |                               |                  |                 |
| <b>Current</b>                                    |                               |                  |                 |
| Trade and other payables (Notes 19 & 23)          | \$ 3,046,744                  | \$ 3,087,190     | \$ 1,110,958    |
|   | <b>3,046,744</b>              | 3,087,190        | 1,110,958       |
| <b>Restoration liabilities (Note 9)</b>           | <b>28,240</b>                 | 30,363           | 14,985          |
|   | <b>3,074,984</b>              | 3,117,553        | 1,125,943       |
| <b>Shareholders' Equity</b>                       |                               |                  |                 |
| <b>Capital stock (Note 10)</b>                    | <b>38,550,625</b>             | 36,494,777       | 14,410,560      |
| <b>Shares to be issued (Note 13)</b>              | -                             | -                | 273,511         |
| <b>Reserve for share-based payments (Note 12)</b> | <b>4,667,667</b>              | 2,327,838        | 2,373,840       |
| <b>Reserve for warrants (Note 11)</b>             | <b>8,160,662</b>              | 7,429,281        | 10,858,874      |
| <b>Accumulated other comprehensive income</b>     | <b>487,496</b>                | 592,928          | -               |
| <b>Accumulated deficit</b>                        | <b>(45,350,040)</b>           | (37,645,053)     | (23,036,251)    |
|   | <b>6,516,410</b>              | 9,199,771        | 4,880,534       |
|   | <b>\$ 9,591,394</b>           | \$ 12,317,324    | \$ 6,006,477    |

**Nature of operations (Note 1)**

**Contingencies (Note 20)**

**Subsequent events (Note 25)**

**Approved by the Board on December 28, 2011**

**"Darren Blasutti"**  
\_\_\_\_\_  
Director (Signed)

**"Paul Parisotto "**  
\_\_\_\_\_  
Director (Signed)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**RX Exploration Inc.**  
**Unaudited Interim Consolidated Statements of Loss**  
(All figures in U.S. dollars, unless otherwise stated)

| <b>Three month periods ended September 30,</b>    | <b>2011</b>           | <b>2010</b>         |
|---|-----------------------|---------------------|
|   |                       | (Note 3)            |
| <b>Administrative expenses</b>                    |                       |                     |
| Office and general (Note 19)                      | \$ 515,774            | \$ 239,260          |
| Professional and consulting fees (Note 19)        | 487,776               | 386,858             |
| Share-based payments (Note 15)                    | 2,585,697             | -                   |
| Proxy costs (Note 18)                             | 178,708               | -                   |
| Exploration and evaluation expenditures (Note 21) | 8,311,557             | 3,419,485           |
| Settlement revenues                               | (4,246,337)           | (3,668,000)         |
|   | <b>(7,833,175)</b>    | <b>(377,603)</b>    |
| <b>Investment income</b>                          | <b>84,829</b>         | <b>2,851</b>        |
| <b>Future tax recovery (Note 6)</b>               | <b>43,359</b>         | <b>-</b>            |
| <b>Net loss</b>                                   | <b>\$ (7,704,987)</b> | <b>\$ (374,752)</b> |
| <br>  |                       |                     |
| <b>Loss per share</b>                             | <b>(4.7)¢</b>         | <b>(0.3)¢</b>       |
| <b>Weighted average number of shares</b>          |                       |                     |
| <b>outstanding - basic and diluted</b>            | <b>164,962,526</b>    | <b>111,815,331</b>  |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**RX Exploration Inc.**  
**Unaudited Interim Consolidated Statements of Comprehensive Loss**  
(All figures in U.S. dollars, unless otherwise stated)

| <b>Three month periods ended September 30,</b>   | <b>2011</b> |                  | <b>2010</b> |                |
|--|-------------|------------------|-------------|----------------|
| <b>Net loss</b>  | <b>\$</b>   | <b>7,704,987</b> | <b>\$</b>   | <b>374,752</b> |
| <b>Other comprehensive loss (income):</b>  |             |                  |             |                |
| Unrealized loss (gain) on foreign currency translation   |             | <b>408,942</b>   |             | (133,134)      |
| Unrealized gain on available-for-sale financial assets,<br>net of future income tax recovery of \$43,359 (2010<br>– \$nil) |             | <b>(303,510)</b> |             | -              |
|  |             | <b>105,432</b>   |             | (133,134)      |
| <b>Total comprehensive loss</b>  | <b>\$</b>   | <b>7,810,419</b> | <b>\$</b>   | <b>241,618</b> |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**RX Exploration Inc.**  
**Unaudited Interim Consolidated Statement of Changes in Equity**  
(All figures in U.S. dollars, unless otherwise stated)

|   | Share Capital      |                      | Reserves             |                     |                   | Other Comprehensive Income (Loss) | Accumulated Deficit | Shares to be Issued | Total |
|---|--------------------|----------------------|----------------------|---------------------|-------------------|-----------------------------------|---------------------|---------------------|-------|
|   | Number of Shares   | Amount               | Share-based Payments | Warrants            |                   |                                   |                     |                     |       |
| Balance at July 1, 2010                                   | 111,016,331        | \$ 14,410,560        | \$ 2,373,840         | \$ 10,858,874       | \$ -              | \$ (23,036,251)                   | \$ 273,511          | \$ 4,880,534        |       |
| Exercise of warrants                                      | 424,000            | 145,379              | -                    | (37,153)            | -                 | -                                 | -                   | 108,226             |       |
| Shares issued for warrants exercised in prior period      | 375,000            | 299,064              | -                    | -                   | -                 | -                                 | (273,511)           | 25,553              |       |
| Total other comprehensive income for the period           | -                  | -                    | -                    | -                   | 133,134           | -                                 | -                   | 133,134             |       |
| Net loss for the period                                   | -                  | -                    | -                    | -                   | -                 | (374,752)                         | -                   | (374,752)           |       |
| <b>Balance at September 30, 2010</b>                      | <b>111,815,331</b> | <b>14,855,003</b>    | <b>2,373,840</b>     | <b>10,821,721</b>   | <b>133,134</b>    | <b>(23,411,003)</b>               | -                   | <b>4,772,695</b>    |       |
| Exercise of warrants                                      | 48,208,899         | 21,671,761           | -                    | (3,392,440)         | -                 | -                                 | -                   | 18,279,321          |       |
| Exercise of stock options                                 | 475,000            | 279,726              | (111,133)            | -                   | -                 | -                                 | -                   | 168,593             |       |
| Shares issued for exploration and evaluation expenditures | 200,000            | 132,501              | -                    | -                   | -                 | -                                 | -                   | 132,501             |       |
| Share-based payments                                      | -                  | -                    | 65,131               | -                   | -                 | -                                 | -                   | 65,131              |       |
| Share issue costs – cash                                  | -                  | (444,214)            | -                    | -                   | -                 | -                                 | -                   | (444,214)           |       |
| Total other comprehensive income for the period           | -                  | -                    | -                    | -                   | 459,794           | -                                 | -                   | 459,794             |       |
| Net loss for the period                                   | -                  | -                    | -                    | -                   | -                 | (14,234,050)                      | -                   | (14,234,050)        |       |
| <b>Balance at June 30, 2011</b>                           | <b>160,699,230</b> | <b>36,494,777</b>    | <b>2,327,838</b>     | <b>7,429,281</b>    | <b>592,928</b>    | <b>(37,645,053)</b>               | -                   | <b>9,199,771</b>    |       |
| Private placement of units                                | 5,000,000          | 2,326,056            | -                    | -                   | -                 | -                                 | -                   | 2,326,056           |       |
| Fair value attributed to warrants issued                  | -                  | (791,675)            | -                    | 791,675             | -                 | -                                 | -                   | -                   |       |
| Exercise of stock options                                 | 900,000            | 418,690              | (245,868)            | -                   | -                 | -                                 | -                   | 172,822             |       |
| Exercise of warrants                                      | 245,226            | 119,110              | -                    | (60,294)            | -                 | -                                 | -                   | 58,816              |       |
| Share-based payments                                      | -                  | -                    | 2,585,697            | -                   | -                 | -                                 | -                   | 2,585,697           |       |
| Shares issue costs – cash                                 | -                  | (16,333)             | -                    | -                   | -                 | -                                 | -                   | (16,333)            |       |
| Total other comprehensive loss for the period             | -                  | -                    | -                    | -                   | (105,432)         | -                                 | -                   | (105,432)           |       |
| Net loss for the period                                   | -                  | -                    | -                    | -                   | -                 | (7,704,987)                       | -                   | (7,704,987)         |       |
| <b>Balance at September 30, 2011</b>                      | <b>166,844,456</b> | <b>\$ 38,550,625</b> | <b>\$ 4,667,667</b>  | <b>\$ 8,160,662</b> | <b>\$ 487,496</b> | <b>\$ (45,350,040)</b>            | <b>\$ -</b>         | <b>\$ 6,516,410</b> |       |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**RX Exploration Inc.**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
(All figures in U.S. dollars, unless otherwise stated)

| Three month periods ended September 30,                                   | 2011                | 2010                |
|---|---------------------|---------------------|
|   |                     | (Note 3)            |
| <b>OPERATING ACTIVITIES</b>   |                     |                     |
| Net loss  | \$ (7,704,987)      | \$ (374,752)        |
| Adjustments to reconcile net loss to cash flow from operating activities: |                     |                     |
| Non-cash items:   |                     |                     |
| Unrealized gain (loss) on foreign currency translation                    | (408,942)           | 133,134             |
| Share-based payments  | 2,585,697           | -                   |
| Unrealized foreign exchange gain (loss)                                   | 148,525             | -                   |
| Depreciation  | 116,206             | -                   |
| Future tax recovery   | (43,359)            | -                   |
| Accretion of promissory note receivable                                   | (71,169)            | -                   |
| Net change in non-cash working capital items:                             |                     |                     |
| Trade and other receivables   | (1,648,864)         | (340,476)           |
| Prepaid expenses and sundry assets  | 139,613             | 55,683              |
| Reclamation bonds   | -                   | (8,277)             |
| Trade and other payables  | (40,446)            | (55,012)            |
| Cash Flow Used in Operating Activities                                    | (6,927,726)         | (589,700)           |
| <b>INVESTING ACTIVITIES</b>   |                     |                     |
| Addition to other financial assets  | -                   | 578,874             |
| Redemption of other financial assets                                      | 7,265,466           | -                   |
| Acquisition of plant and equipment  | (943,284)           | (226,945)           |
| Cash Flow From Investing Activities                                       | 6,322,182           | 351,929             |
| <b>FINANCING ACTIVITY</b>   |                     |                     |
| Issuance of capital stock, net of issue costs                             | 2,541,361           | 416,086             |
| Cash Flow From Financing Activity   | 2,541,361           | 416,086             |
| <b>Net increase in cash</b>   | <b>1,935,817</b>    | <b>178,315</b>      |
| Cash, beginning of period   | 869,319             | 1,594,618           |
| <b>Cash, end of period</b>  | <b>\$ 2,805,136</b> | <b>\$ 1,772,933</b> |

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

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**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 exploration company focused on transitioning to production at its 100% owned Drumlummon Mine (Note 8(a)) in Montana and acquiring additional properties in North America. Currently, the Company is continuing to explore its portfolio of patented and unpatented mining claims, evaluate commercial production at the Drumlummon mine, complete a National Instrument 43-101 compliant resource report, and complete a technical report.

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. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 '*Interim Financial Reporting*' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of December 28, 2011, the date the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the annual consolidated financial statements for the year ending June 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These are the Company's first IFRS interim consolidated financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending June 30, 2012. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

As these are the Company's first set of consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

**2.2 Basis of presentation**

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4. The comparative figures presented in these interim consolidated financial statements are in accordance with IFRS and have not been audited.

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

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**2. BASIS OF PREPARATION, (continued)**

**2.3 Adoption of new and revised standards and interpretations**

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 9 '*Financial Instruments: Classification and Measurement*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 '*Consolidated Financial Statements*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 '*Joint Arrangements*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 '*Disclosure of Interests in Other Entities*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13 '*Fair Value Measurement*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.
- IAS 27 '*Separate Financial Statements*' - as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 '*Investments in Associates and Joint Ventures*' - as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IAS 1 '*Presentation of Financial Statements*' - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 19 '*Employee Benefits*' - a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.

Management anticipates that the above standards will be adopted in the Company's financial statements for the period beginning July 1, 2013, and has not yet considered the impact of the adoption of these standards.

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

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**2. BASIS OF PREPARATION, (continued)**

**2.4 Change in presentation currency**

Effective July 1, 2010, the Company changed its presentation currency to the United States dollar. The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with those of other publicly traded businesses in the gold mining industry. Prior to July 1, 2010, RX Exploration Inc. presented its consolidated statements of financial position and related consolidated statements of loss and comprehensive loss, statements of changes in equity and cash flows in Canadian dollars. The change to the Company's presentation currency has been accounted for in accordance with IAS 21 - *The Effects of Changes in Foreign Exchange Rates*. Income and expenses have been translated at the average exchange rate for each period, assets, liabilities have been translated at the closing exchange rate at each balance sheet date and equity was first translated at the closing exchange rate on July 1, 2010 and then adjusted for the average historical rate of accumulation since that period. The effects of this change have been applied retrospectively.

**3. FIRST TIME ADOPTION OF IFRS**

The Company has adopted IFRS on July 1, 2011 with a transition date of July 1, 2010 (the "Transition Date"). Under IFRS 1 *'First time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the Transition Date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to accumulated deficit unless certain exemptions are applied.

The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 3, *Business Combinations*, prospectively from the Transition Date;
- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arise on adoption of IFRS.

There has been no change in accounting policies or change in the use of IFRS 1 exemptions in the current quarter.

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

**3. FIRST TIME ADOPTION OF IFRS, (continued)**

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption has resulted in significant changes to the reported financial position, results of operations, and cash flows of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

**Reconciliation of assets, liabilities and equity**

|   | <b>As at July 1, 2010</b> |   |                     | <b>Notes</b> |
|---|---------------------------|---|---------------------|--------------|
|   | <b>Canadian<br/>GAAP</b>  | <b>Effect of<br/>transition to<br/>IFRS</b> | <b>IFRS</b>         |              |
| <b>Assets</b>                                       |                           |   |                     |              |
| <b>Current</b>                                      |                           |   |                     |              |
| Cash  | \$ 1,594,618              | \$ -  | \$ 1,594,618        |              |
| Other financial assets                              | 2,817,900                 | -   | 2,817,900           |              |
| Trade and other receivables                         | 338,101                   | -   | 338,101             |              |
| Due from agents                                     | 281,790                   | -   | 281,790             |              |
| Prepaid expenses and sundry assets                  | 271,733                   | -   | 271,733             |              |
|   | 5,304,142                 | -   | 5,304,142           |              |
| <b>Plant and equipment</b>                          | 687,350                   | -   | 687,350             |              |
| <b>Mining claims and deferred exploration costs</b> | 13,580,570                | (13,580,570)                                | -                   | (a)          |
| <b>Reclamation bonds</b>                            | 14,985                    | -   | 14,985              |              |
|   | <b>\$ 19,587,047</b>      | <b>\$ (13,580,570)</b>                      | <b>\$ 6,006,477</b> |              |
| <b>Liabilities</b>                                  |                           |   |                     |              |
| <b>Current</b>                                      |                           |   |                     |              |
| Trade and other payables                            | \$ 1,110,958              | \$ -  | \$ 1,110,958        |              |
|   | 1,110,958                 | -   | 1,110,958           |              |
| <b>Restoration liabilities</b>                      | 14,985                    | -   | 14,985              |              |
|   | 1,125,943                 | -   | 1,125,943           |              |
| <b>Shareholders' Equity</b>                         |                           |   |                     |              |
| <b>Capital stock</b>                                | 14,410,560                | -   | 14,410,560          |              |
| <b>Shares to be issued</b>                          | 273,511                   | -   | 273,511             |              |
| <b>Contributed surplus</b>                          | 2,852,002                 | (2,852,002)                                 | -                   | (b)          |
| <b>Reserve for share-based payments</b>             | -                         | 2,373,840                                   | 2,373,840           | (b)          |
| <b>Reserve for warrants</b>                         | 10,380,712                | 478,162                                     | 10,858,874          | (b)          |
| <b>Accumulated deficit</b>                          | (9,455,681)               | (13,580,570)                                | (23,036,251)        | (a)          |
|   | 18,461,104                | (13,580,570)                                | 4,880,534           |              |
|   | <b>\$ 19,587,047</b>      | <b>\$ (13,580,570)</b>                      | <b>\$ 6,006,477</b> |              |

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of assets, liabilities and equity**

|   | <b>As at September 30, 2010</b> |   |                     | <b>Notes</b> |
|---|---------------------------------|---|---------------------|--------------|
|   | <b>Canadian<br/>GAAP</b>        | <b>Effect of<br/>transition to<br/>IFRS</b> | <b>IFRS</b>         |              |
| <b>Assets</b>                                       |                                 |   |                     |              |
| <b>Current</b>                                      |                                 |   |                     |              |
| Cash  | \$ 1,772,933                    | \$ -  | \$ 1,772,933        |              |
| Other financial assets                              | 2,239,028                       | -   | 2,239,028           |              |
| Trade and other receivables                         | 678,577                         | -   | 678,577             |              |
| Prepaid expenses and sundry assets                  | 216,050                         | -   | 216,050             |              |
|   | 4,906,588                       | -   | 4,906,588           |              |
| <b>Plant and equipment</b>                          | 914,295                         | -   | 914,295             |              |
| <b>Mining claims and deferred exploration costs</b> | 13,332,053                      | (13,332,053)                                | -                   | (a)          |
| <b>Reclamation bonds</b>                            | 23,262                          | -   | 23,262              |              |
|   | <b>\$ 19,176,198</b>            | <b>\$ (13,332,053)</b>                      | <b>\$ 5,844,145</b> |              |
| <b>Liabilities</b>                                  |                                 |   |                     |              |
| <b>Current</b>                                      |                                 |   |                     |              |
| Trade and other payables                            | \$ 1,055,947                    | \$ -  | \$ 1,055,947        |              |
|   | 1,055,947                       | -   | 1,055,947           |              |
| <b>Restoration liabilities</b>                      | 15,503                          | -   | 15,503              |              |
|   | 1,071,450                       | -   | 1,071,450           |              |
| <b>Shareholders' Equity</b>                         |                                 |   |                     |              |
| <b>Capital stock</b>                                | 14,855,003                      | -   | 14,855,003          |              |
| <b>Contributed surplus</b>                          | 2,854,034                       | (2,854,034)                                 | -                   | (b)          |
| <b>Reserve for share-based payments</b>             | -                               | 2,373,840                                   | 2,373,840           | (b)          |
| <b>Reserve for warrants</b>                         | 10,341,527                      | 480,194                                     | 10,821,721          | (b)          |
| <b>Accumulated other comprehensive income</b>       | 133,134                         | -   | 133,134             |              |
| <b>Accumulated deficit</b>                          | (10,078,950)                    | (13,332,053)                                | (23,411,003)        | (a)          |
|   | 18,104,748                      | (13,332,053)                                | 4,772,695           |              |
|   | <b>\$ 19,176,198</b>            | <b>\$ (13,332,053)</b>                      | <b>\$ 5,844,145</b> |              |

**RX Exploration Inc.**  
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**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of assets, liabilities and equity**

|   | As at June 30, 2011 |                                    |               | Notes |
|---|---------------------|------------------------------------|---------------|-------|
|   | Canadian<br>GAAP    | Effect of<br>transition to<br>IFRS | IFRS          |       |
| <b>Assets</b>                                       |                     |                                    |               |       |
| <b>Current</b>                                      |                     |                                    |               |       |
| Cash  | \$ 869,319          | \$ -                               | \$ 869,319    |       |
| Other financial assets                              | 7,356,096           | -                                  | 7,356,096     |       |
| Trade and other receivables                         | 138,522             | -                                  | 138,522       |       |
| Prepaid expenses and sundry assets                  | 382,449             | -                                  | 382,449       |       |
|   | 8,746,386           | -                                  | 8,746,386     |       |
| <b>Long-term investments</b>                        | 1,520,106           | -                                  | 1,520,106     |       |
| <b>Plant and equipment</b>                          | 2,020,469           | -                                  | 2,020,469     |       |
| <b>Mining claims and deferred exploration costs</b> | 25,680,952          | (25,680,952)                       | -             | (a)   |
| <b>Reclamation bonds</b>                            | 30,363              | -                                  | 30,363        |       |
|   | \$ 37,998,276       | \$ (25,680,952)                    | \$ 12,317,324 |       |
| <b>Liabilities</b>                                  |                     |                                    |               |       |
| <b>Current</b>                                      |                     |                                    |               |       |
| Trade and other payables                            | \$ 3,087,190        | \$ -                               | \$ 3,087,190  |       |
|   | 3,087,190           | -                                  | 3,087,190     |       |
| <b>Restoration liabilities</b>                      | 30,363              | -                                  | 30,363        |       |
|   | 3,117,553           | -                                  | 3,117,553     |       |
| <b>Shareholders' equity</b>                         |                     |                                    |               |       |
| <b>Capital stock</b>                                | 36,494,777          | -                                  | 36,494,777    |       |
| <b>Contributed surplus</b>                          | 2,327,838           | (2,327,838)                        | -             | (b)   |
| <b>Reserve for share-based payments</b>             | -                   | 2,327,838                          | 2,327,838     | (b)   |
| <b>Reserve for warrants</b>                         | 7,429,281           | -                                  | 7,429,281     | (b)   |
| <b>Accumulated other comprehensive income</b>       | 592,928             | -                                  | 592,928       |       |
| <b>Accumulated deficit</b>                          | (11,964,101)        | (25,680,952)                       | (37,645,053)  | (a)   |
|   | 34,880,723          | (25,680,952)                       | 9,199,771     |       |
|   | \$ 37,998,276       | \$ (25,680,952)                    | \$ 12,317,324 |       |

**RX Exploration Inc.**  
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**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of loss and comprehensive loss**

|   | <b>Three months ended September 30, 2010</b> |   |                     | <b>Notes</b> |
|---|--|---|---------------------|--------------|
|   | <b>Canadian<br/>GAAP</b>                     | <b>Effect of<br/>transition to<br/>IFRS</b> | <b>IFRS</b>         |              |
| <b>Administrative expenses</b>                  |  |   |                     |              |
| Office and general                              | \$ 239,260                                   | \$ -  | \$ 239,260          |              |
| Professional and consulting fees                | 386,858                                      | -   | 386,858             |              |
| Exploration and evaluation expenditures         | -  | 3,419,485                                   | 3,419,485           | (a)          |
| Settlement revenues                             | -  | (3,668,000)                                 | (3,668,000)         | (a)          |
| <b>Net loss before the undernoted</b>           | <b>(626,118)</b>                             | <b>248,515</b>                              | <b>(377,603)</b>    |              |
| <b>Investment income</b>                        | <b>2,851</b>                                 | <b>-</b>                                    | <b>2,851</b>        |              |
| <b>Net loss</b>                                 | <b>\$ (623,267)</b>                          | <b>\$ 248,515</b>                           | <b>\$ (374,752)</b> |              |
| <b>Net loss</b>                                 | <b>\$ (623,267)</b>                          | <b>\$ 248,515</b>                           | <b>\$ (374,752)</b> | <b>(a)</b>   |
| <b>Other comprehensive income:</b>              |  |   |                     |              |
| Unrealized gain on foreign currency translation | 133,134                                      | -   | 133,134             |              |
| <b>Total comprehensive loss</b>                 | <b>\$ (490,133)</b>                          | <b>\$ 248,515</b>                           | <b>\$ (241,618)</b> |              |

**RX Exploration Inc.**  
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**For the three months ended September 30, 2011 and 2010**  
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**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of loss and comprehensive loss**

|   | Year ended June 30, 2011 |                                    |                        | Notes      |
|---|--------------------------|------------------------------------|------------------------|------------|
|   | Canadian<br>GAAP         | Effect of<br>transition to<br>IFRS | IFRS                   |            |
| <b>Administrative expenses</b>                  |                          |                                    |                        |            |
| Office and general                              | \$ 1,482,488             | \$ -                               | \$ 1,482,488           |            |
| Professional and consulting fees                | 1,422,082                | -                                  | 1,422,082              |            |
| Share-based payments                            | 54,411                   | -                                  | 54,411                 |            |
| Recovery of deferred exploration costs          | (1,422,470)              | 1,422,470                          | -                      | (a)        |
| Proxy costs                                     | 1,216,614                | -                                  | 1,216,614              |            |
| Exploration and evaluation expenditures         | -                        | 18,427,994                         | 18,427,994             | (a)        |
| Settlement revenues                             | -                        | (7,750,081)                        | (7,750,081)            | (a)        |
| <b>Net loss before the undernoted</b>           | <b>(2,753,125)</b>       | <b>(12,100,383)</b>                | <b>(14,853,508)</b>    |            |
| <b>Investment income</b>                        | <b>244,706</b>           | <b>-</b>                           | <b>244,706</b>         |            |
| <b>Net loss</b>                                 | <b>\$ (2,508,419)</b>    | <b>\$ (12,100,383)</b>             | <b>\$ (14,608,802)</b> |            |
| <b>Net loss</b>                                 | <b>\$ (2,508,419)</b>    | <b>\$ (12,100,383)</b>             | <b>\$ (14,608,802)</b> | <b>(a)</b> |
| <b>Other comprehensive income:</b>              |                          |                                    |                        |            |
| Unrealized gain on foreign currency translation | 592,928                  | -                                  | 592,928                |            |
| <b>Total comprehensive loss</b>                 | <b>\$ (1,915,491)</b>    | <b>\$ (12,100,383)</b>             | <b>\$ (14,015,874)</b> |            |

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of cash flows**

|   | <b>Three months ended September 30, 2010</b> |   |              | <b>Notes</b> |
|---|--|---|--------------|--------------|
|   | <b>Canadian<br/>GAAP</b>                     | <b>Effect of<br/>transition to<br/>IFRS</b> | <b>IFRS</b>  |              |
| <b>Operating</b>  |  |   |              |              |
| Net loss  | \$ (623,267)                                 | \$ 248,515                                  | \$ (374,752) | (a)          |
| Adjustments to reconcile net loss to cash flow from operating activities: |  |   |              |              |
| Unrealized gain on foreign currency translation                           | 133,134                                      | -   | 133,134      |              |
| Net change in non-cash working capital items:                             |  |   |              |              |
| Trade and other receivables   | (340,476)                                    | -   | (340,476)    |              |
| Prepaid expenses and sundry assets  | 55,683                                       | -   | 55,683       |              |
| Reclamation bonds   | (8,277)                                      | -   | (8,277)      |              |
| Trade and other payables  | (55,012)                                     | -   | (55,012)     |              |
|   | (838,215)                                    | 248,515                                     | (589,700)    |              |
| <b>Investing</b>  |  |   |              |              |
| Redemption of other financial assets                                      | 578,874                                      | -   | 578,874      |              |
| Acquisition of plant and equipment  | (226,945)                                    | -   | (226,945)    |              |
| Acquisition of mining claims and deferred exploration costs               | (3,687,000)                                  | 3,687,000                                   | -            | (a)          |
| Settlement revenues   | 3,935,515                                    | (3,935,515)                                 | -            | (a)          |
|   | 600,444                                      | (248,515)                                   | 351,929      |              |
| <b>Financing</b>  |  |   |              |              |
| Issuance of capital stock, net of issue costs                             | 416,086                                      | -   | 416,086      |              |
|   | 416,086                                      | -   | 416,086      |              |
| <b>Net increase in cash</b>   | 178,315                                      | -   | 178,315      |              |
| Cash, beginning of period   | 1,594,618                                    | -   | 1,594,618    |              |
| Cash, end of period   | \$ 1,772,933                                 | \$ -  | \$ 1,772,933 |              |

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
**For the three months ended September 30, 2011 and 2010**  
(All figures in U.S. dollars, unless otherwise stated)

**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Reconciliation of cash flows**

|   | Year ended June 30, 2011 |                                    |                 | Notes |
|---|--------------------------|------------------------------------|-----------------|-------|
|   | Canadian<br>GAAP         | Effect of<br>transition to<br>IFRS | IFRS            |       |
| <b>Operating</b>  |                          |                                    |                 |       |
| Net loss  | \$(2,508,419)            | \$ (12,100,383)                    | \$ (14,608,802) | (a)   |
| Adjustments to reconcile net loss to cash flow from operating activities: |                          |                                    |                 |       |
| Non-cash items:   |                          |                                    |                 |       |
| Recovery of deferred exploration costs                                    | (1,365,821)              | -                                  | (1,365,821)     |       |
| Share-based payments  | 54,411                   | -                                  | 54,411          |       |
| Unrealized gain on foreign currency translation                           | 592,928                  | -                                  | 592,928         |       |
| Accretion of promissory note receivable                                   | (142,586)                | -                                  | (142,586)       |       |
| Net change in non-cash working capital items:                             |                          |                                    |                 |       |
| Trade and other receivables   | 199,580                  | -                                  | 199,580         |       |
| Prepaid expenses and sundry assets  | (110,716)                | -                                  | (110,716)       |       |
| Reclamation bonds   | (15,378)                 | -                                  | (15,378)        |       |
| Trade and other payables  | 1,976,233                | -                                  | 1,976,233       |       |
|   | (1,319,768)              | (12,100,383)                       | (13,420,151)    |       |
| <b>Investing</b>  |                          |                                    |                 |       |
| Addition of other financial assets  | (13,071,556)             | -                                  | (13,071,556)    |       |
| Redemption of other financial assets                                      | 8,533,360                | -                                  | 8,533,360       |       |
| Acquisition of plant and equipment  | (1,525,634)              | -                                  | (1,525,634)     |       |
| Acquisition of mining claims and deferred exploration costs               | (20,261,548)             | 20,261,548                         | -               |       |
| Settlement revenues   | 8,161,165                | (8,161,165)                        | -               |       |
|   | (18,164,213)             | 12,100,383                         | (6,063,830)     |       |
| <b>Financing</b>  |                          |                                    |                 |       |
| Issuance of capital stock, net of issue costs                             | 18,758,682               | -                                  | 18,758,682      |       |
|   | 18,758,682               | -                                  | 18,758,682      |       |
| <b>Net increase in cash</b>   | (725,299)                | -                                  | (725,299)       |       |
| Cash, beginning of year   | 1,594,618                | -                                  | 1,594,618       |       |
| Cash, end of year   | \$ 869,319               | \$ -                               | \$ 869,319      |       |

**RX Exploration Inc.**  
**Notes to Unaudited Interim Consolidated Financial Statements**  
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**3. FIRST TIME ADOPTION OF IFRS, (continued)**

**Notes to Reconciliations**

**a) Acquisition, exploration and evaluation expenditures**

*Under Canadian GAAP* – Prior to 2011, the Company used the policy to defer the cost of mineral properties and their related exploration costs until the properties are placed into production, sold or abandoned. These costs would be amortized over the estimated useful life of the properties following the commencement of production. Cost includes both the cash consideration as well as the fair market value of any securities issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments were made at the sole discretion of the Company, were recorded in the accounts at such time as the payments are made. The proceeds from property options granted or revenue from the sale of gold and silver equivalent, extracted during the Company's exploration and evaluation activities reduced the cost of the related property and any excess over cost is applied to income.

*Under IFRS* – Acquisition, exploration and evaluation expenditures for each property are expensed as incurred, unless such costs are expected to be recovered through successful development and exploration of the property or, alternatively, by its sale. Consequential revenue from the sale of gold and silver equivalent, extracted during the Company's exploration and evaluation activities, is recognized in the consolidated statements of loss 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.

**b) Reserves**

*Under Canadian GAAP* – Prior to 2011, the Company recorded the fair value of share-based payments and warrants issued to contributed surplus.

*Under IFRS* – IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the fair value that relates to "Reserves for warrants", "Reserves for share-based payments" and any other component of equity.

**RX Exploration Inc.**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**4.1 Basis of consolidation**

The interim consolidated financial statements include the financial statements of the Company and its wholly controlled subsidiaries: Drumlummon Gold Corp., Drumlummon Ltd., Bald Butte Ltd. and RX Mining Corp. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

**4.2 Mineral properties**

All acquisition and exploration costs, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

**4.3 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight line method or unit-of-production method over the following expected useful lives:

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

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

##### **4.3 Property, plant and equipment (continued)**

Where an item of PPE comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

##### **4.4 Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”)**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

##### **4.5 Share-based payments**

###### ***Share-based payment transactions***

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

###### ***Equity settled transactions***

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

**RX Exploration Inc.**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**4.5 Share-based payments (continued)**

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

**4.6 Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**4.6 Taxation (continued)**

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**4.7 Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the three months ended September 30, 2011 and 2010 all the outstanding stock options and warrants were antidilutive.

**4.8 Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and other financial assets are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables, sundry receivables, promissory note receivable and reclamation bonds are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At September 30, 2011 the Company has classified its common share investments in Argentium Resources Inc. as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**4.9 Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, and restoration liabilities are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At September 30, 2011 the Company has not classified any financial liabilities as FVTPL.

**4.10 Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

***Available-for-sale***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**4.11 Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

**4.12 Cash**

Cash in the statement of financial position comprise cash at banks and on hand.

**4.13 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**4.14 Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

**4.15 Settlement revenues**

Consequential revenue from the sale of gold and silver equivalent, extracted during the Company's exploration and evaluation 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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**4.16 Significant accounting judgments and estimates**

The preparation of these consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to liability for asset retirement obligations; useful life of plant and equipment, recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing of plant and equipment and the calculation of share-based payments.

**4.17 Foreign currency transactions**

*Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of RX Exploration Inc. and RX Mining Corp. is the Canadian Dollar ("CDN"), and the functional currency of Drumlummon Gold Corp., Drumlummon Ltd. and Marysville Milling and Mining LLC is the U.S. Dollar ("USD"). The consolidated financial statements are presented in U.S. Dollars which is the Company's presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss.

Transactions and balances in a Canadian Dollar functional currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- equity is translated as the historical average rate of accumulation;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized into other comprehensive income.

**5. OTHER FINANCIAL ASSETS**

Other financial assets consist of cashable Guaranteed Investment Certificates ("GIC") with a Canadian Chartered Bank. As at September 30, 2011 the balance in the first of two GIC's was \$Nil (June 30, 2011 - \$7,257,600) bearing interest at 1.20% per annum, redeemable by November 21, 2011. As at September 30, 2011 the balance in the second of two GIC's was \$90,630 (June 30, 2011 - \$98,496) bearing interest at 0.75% per annum, redeemable by December 6, 2011.

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**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 CDN\$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 CDN\$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 CDN\$350,000 at the date of the Agreement. On September 9, 2011, Argentium Resources Inc. listed its common shares on the Canadian National Stock Exchange. As at September 30, 2011, these available-for-sale investments have been measured at their fair value of \$658,260 (June 30, 2011 – \$362,880). The impact to the interim consolidated financial statements of this revaluation to market value resulted in an increase of \$295,380 (2011 – \$nil) to the value of the investments with a corresponding increase in accumulated other comprehensive income of \$346,870 (2011 – \$nil) offset by future income tax recovery of \$43,359 (2011 – \$nil) that has been included in the current period's net loss.

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 consolidated statements of comprehensive loss for the year ended June 30, 2011.

Long-term investments consist of the following:

|                                    | <b>September 30, 2011</b> | June 30, 2011       |
|------------------------------------|---------------------------|---------------------|
| Common shares                      | <b>\$ 658,260</b>         | \$ 362,880          |
| Promissory note receivable         | <b>1,131,359</b>          | 1,157,226           |
| <b>Balance, end of year/period</b> | <b>\$ 1,789,619</b>       | <b>\$ 1,520,106</b> |

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**7. PLANT AND EQUIPMENT**

|                                 | Shop building | Water plant | Exploration equipment | Computer software | Total        |
|---------------------------------|---------------|-------------|-----------------------|-------------------|--------------|
| <b>Cost</b>                     |               |             |                       |                   |              |
| As at July 1, 2010              | \$ 56,643     | \$ 418,676  | \$ 193,598            | \$ 18,433         | \$ 687,350   |
| Additions                       | 4,628         | 19,970      | 1,508,453             | 25,143            | 1,558,194    |
| As at June 30, 2011             | 61,271        | 438,646     | 1,702,051             | 43,576            | 2,245,544    |
| Additions                       | -             | -           | 889,879               | 53,405            | 943,284      |
| As at September 30, 2011        | \$ 61,271     | \$ 438,646  | \$ 2,591,930          | \$ 96,981         | \$ 3,188,828 |
| <b>Accumulated depreciation</b> |               |             |                       |                   |              |
| As at July 1, 2010              | \$ -          | \$ -        | \$ -                  | \$ -              | \$ -         |
| Amortization expense            | 7,167         | 51,206      | 151,516               | 15,186            | 225,075      |
| As at June 30, 2011             | 7,167         | 51,206      | 151,516               | 15,186            | 225,075      |
| Amortization expense            | 1,532         | 5,925       | 100,666               | 8,083             | 116,206      |
| As at September 30, 2011        | \$ 8,699      | \$ 57,131   | \$ 252,182            | \$ 23,269         | \$ 341,281   |
| <b>Net book value</b>           |               |             |                       |                   |              |
| As at July 1, 2010              | \$ 56,643     | \$ 418,676  | \$ 193,598            | \$ 18,433         | \$ 687,350   |
| As at June 30, 2011             | \$ 54,104     | \$ 387,440  | \$ 1,550,535          | \$ 28,390         | \$ 2,020,469 |
| As at September 30, 2011        | \$ 52,572     | \$ 381,515  | \$ 2,339,748          | \$ 73,712         | \$ 2,847,547 |

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**8. MINING CLAIMS**

**(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. For the Hard Rock Claims, the Company paid the sum of \$1,200,000, 200,000 common shares in the capital of the Company and a two percent (2%) Net Smelter Returns Royalty ("NSR") on the Drumlummon Claims. The Company has paid the NSR due up to September 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.

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 CDN\$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 \$625,000 (paid in fiscal 2009) and 350,000 common shares valued at CDN\$0.45 each (issued in fiscal 2009) for a fair value of CDN\$157,500.

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**8. MINING CLAIMS, (continued)**

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

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 CDN\$3,000,000 financing provided by SRR, CDN\$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.

**(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 \$55,000 upon execution of this agreement. On April 12, 2011, the Company paid the first year anniversary payment of \$55,000.

The Company has the exclusive option to purchase the claims for \$5,000,000 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
- Third year anniversary \$100,000
- Fourth year anniversary \$100,000
- Fifth and each subsequent annual anniversary \$150,000

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

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

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**8. MINING CLAIMS, (continued)**

**(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, (totaling 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 CDN\$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 CDN\$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;
- (iii) incur further expenditures of not less than CDN\$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 CDN\$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 CDN\$150,000 on or before the 30th day following the Election Date; and
  - (II) incur further expenditures of not less than CDN\$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 CDN\$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 CDN\$1,500,000.

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**8. MINING CLAIMS, (continued)**

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

The Company has paid the CDN\$5,500 due on signing and incurred CDN\$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.

**9. RECLAMATION BONDS**

As at September 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.

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**10. CAPITAL STOCK**

Authorized:  
Unlimited number of common shares

Issued

|   | Number      | Amount (\$) |
|---|-------------|-------------|
| Balance at July 1, 2010                                     | 111,016,331 | 14,410,560  |
| Issued for cash:  |             |             |
| Exercise of options (e)                                     | 475,000     | 279,726     |
| Exercise of warrants (f)                                    | 48,632,899  | 21,817,140  |
| Shares issued for warrants exercised in prior year (g)      | 375,000     | 299,064     |
| Issued for non-cash consideration:                          |             |             |
| Property acquisition (d)                                    | 200,000     | 132,501     |
| Cost of share issuance:                                     |             |             |
| Share issue expenses  | -           | (444,214)   |
| Balance at June 30, 2011                                    | 160,699,230 | 36,494,777  |
| Private placement (a)                                       | 5,000,000   | 2,326,056   |
| Exercise of options (b)                                     | 900,000     | 418,690     |
| Exercise of warrants (c)                                    | 245,226     | 119,110     |
| Fair value assigned to warrants issued on private placement | -           | (791,675)   |
| Cost of share issuance:                                     |             |             |
| Share issue expenses  | -           | (16,333)    |
| Balance at September 30, 2011                               | 166,844,456 | 38,550,625  |

Activity during the three month period ended September 30, 2011:

- (a) On July 20, 2011 the Company completed a private placement of 5,000,000 units at a price of CDN\$0.456 per unit for gross proceeds of CDN\$2,280,000 (\$2,326,056). 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 CDN\$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.
- (b) During the three month period ended September 30, 2011, 900,000 stock options were exercised into common shares at exercise prices ranging from CDN\$0.15 to CDN\$0.32 for gross proceeds of CDN\$169,400 (\$172,822). The fair value of these options exercised was CDN\$241,000 (\$245,868) (Note 12).
- (c) During the three month period ended September 30, 2011, 245,226 warrants were exercised into common shares at exercise prices ranging from CDN\$0.20 to CDN\$0.30 for gross proceeds of CDN\$57,652 (\$58,816). The fair value of these warrants exercised was CDN\$59,100 (\$60,294) (Note 11).

Activity during the year ended June 30, 2011:

- (d) On October 25, 2010, the Company issued 200,000 common shares at an estimated fair value of CDN\$0.67 per share for a total of CDN\$134,000 (\$132,428) as an option payment for the Bald Butte Property (Note 8(d)).

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**10. CAPITAL STOCK, (continued)**

- (e) During the year, 475,000 stock options were exercised into common shares at exercise prices ranging from CDN\$0.25 to CDN\$0.50 for gross proceeds of \$170,500 (\$168,501). The fair value of these options exercised was \$112,390 (\$111,133) (Note 12).
- (f) During the year, 48,632,899 warrants were exercised into common shares at exercise prices ranging from CDN\$0.20 to CDN\$0.40 for gross proceeds of CDN\$18,598,528 (\$18,387,547). The fair value of these warrants exercised was CDN\$3,469,419 (\$3,429,593) (Note 11). Share issue costs of \$449,238 were incurred.
- (g) On July 5, 2010, 375,000 shares were issued for warrants that were exercised on June 28, 2010 at the exercise price of CDN\$0.40 for gross proceeds of CDN\$150,000 (\$148,240). The fair value of these warrants exercised was CDN\$160,813 (\$150,824) (Note 13).

**11. RESERVE FOR WARRANTS**

| <i>Period/year ended</i>                                | <b>September 30,<br/>2011</b> | June 30,<br>2011 |
|---|-------------------------------|------------------|
| Balance at beginning of period/year                     | <b>\$ 7,429,281</b>           | \$ 10,858,874    |
| Warrants issued (a)                                     | <b>791,675</b>                | -                |
| Reserve transferred on warrants exercised (Note 10 (c)) | <b>(60,294)</b>               | (3,429,593)      |
| Balance at end of period/year                           | <b>\$ 8,160,662</b>           | \$ 7,429,281     |

Activity during the three month period ended September 30, 2011:

- (a) On July 20, 2011 the Company completed a private placement of 5,000,000 units comprised of one common share and one common share purchase warrant, with each such warrant entitling the holder thereof to purchase one additional common share at a price of CDN\$0.60 for a two year period beginning on the date that the units were issued.

The fair value of these warrants was estimated at \$791,675 using the Black-Scholes option pricing model with the following assumptions: (a) dividend yield of 0%; (b) expected volatility of 74%; (c) risk-free interest rate of 1.52% and; (d) expected life of 2 years.

**12. RESERVE FOR SHARE-BASED PAYMENTS**

| <i>Period/year ended</i>                 | <b>September 30,<br/>2011</b> | June 30, 2011 |
|--|-------------------------------|---------------|
| Balance at beginning of period/year      | <b>\$ 2,327,838</b>           | \$ 2,373,840  |
| Share-based payments                     | <b>2,585,697</b>              | 65,131        |
| Reserve transferred on options exercised | <b>(245,868)</b>              | (111,133)     |
| Balance at end of period/year            | <b>\$ 4,667,667</b>           | \$ 2,327,838  |

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**13. SHARES TO BE ISSUED**

Shares to be issued related to 375,000 warrants exercised on June 28, 2010 at a price of CDN\$0.40 for gross proceeds of CDN\$150,000 (\$148,240). 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 \$150,824 (Note 10(g)).

| <i>Period/year ended</i>            | <b>September 30,<br/>2011</b> | June 30, 2011 |
|-------------------------------------|-------------------------------|---------------|
| Balance at beginning of period/year | \$ -                          | \$ 273,511    |
| Changes in foreign exchange rates   | -                             | 25,553        |
| Capital stock issued                | -                             | (299,064)     |
| Balance at end of period/year       | \$ -                          | \$ -          |

**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:

|  | <b>September 30, 2011</b>                          |                              | June 30, 2011                            |                      |
|--|--|------------------------------|--|----------------------|
|  | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Number of<br/>Options</b> | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Options |
| Outstanding - beginning of period/year | \$ 0.40  | 7,345,000                    | \$ 0.40                                  | 8,170,000            |
| Transactions during the period/year    |  |                              |  |                      |
| Granted                                | 0.50   | 8,300,000                    | 0.53                                     | 200,000              |
| Exercised                              | 0.27   | (900,000)                    | 0.36                                     | (475,000)            |
| Expired                                | 0.47   | (50,000)                     | 0.49                                     | (550,000)            |
| Outstanding – end of period/year       | \$ 0.46  | 14,695,000                   | \$ 0.40                                  | 7,345,000            |
| Exercisable – end of period/year       | \$ 0.40  | 14,486,667                   | \$ 0.39                                  | 7,136,667            |

*Note: exercise prices are in CDN dollars.*

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**14. STOCK OPTIONS AND WARRANTS, (continued)**

The following summarizes information on the stock option outstanding at September 30, 2011:

| Range of Exercise Prices (\$) | No. of Options Outstanding | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price (\$) | No. of Options Currently Exercisable | Weighted Average Exercise Price (\$) of Exercisable Options |
|-------------------------------|----------------------------|---|--------------------------------------|--------------------------------------|---|
| 0.15-0.25                     | 1,050,000                  | 0.28                                    | 0.23                                 | 1,050,000                            | 0.23  |
| 0.32-0.49                     | 9,245,000                  | 3.42                                    | 0.47                                 | 9,245,000                            | 0.47  |
| 0.50-0.60                     | 4,400,000                  | 2.21                                    | 0.52                                 | 4,191,667                            | 0.52  |
| <b>0.15-1.00</b>              | <b>14,695,000</b>          | <b>2.84</b>                             | <b>0.46</b>                          | <b>14,486,667</b>                    | <b>0.46</b>   |

*Note: exercise prices are in CDN dollars.*

**(b) Warrants**

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

| Number of Warrants | Exercise Price (CDN) | Expiry Date      |
|--------------------|----------------------|------------------|
| 202,540 (i)        | \$ 0.20              | October 29, 2011 |
| 243,200 (i)        | \$ 0.20              | November 5, 2011 |
| 66,600 (i)         | \$ 0.30              | March 2, 2012    |
| 148,946 (i)        | \$ 0.30              | March 18, 2012   |
| 71,616 (i)         | \$ 0.30              | March 24, 2012   |
| 41,667 (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     |
| 5,000,000          | \$ 0.60              | July 20, 2013    |
| <b>11,602,036</b>  |                      |                  |

(i) Broker warrants issued in connection with the Company's financings.

**15. SHARE-BASED PAYMENTS**

Activity during the three month period ended September 30, 2011:

- On July 6, 2011, the Company granted 7,200,000 options to employees and a consultant with an exercise price of CDN\$0.49 vesting immediately. One third of the options issued expire in 2 years with the remaining two thirds expiring in 5 years.
- The fair value of the 2,400,000 options granted during the period that expire in two years was estimated at \$500,918 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 76%; (c) risk free interest rate of 1.53% and; (d) expected life of 2 years.

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**15. SHARE-BASED PAYMENTS, (continued)**

- The fair value of the 4,800,000 options granted during the period that expire in five years was estimated at \$1,698,634 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 92%; (c) risk free interest rate of 1.53% and; (d) expected life of 5 years.
- On September 13, 2011, the Company granted 1,100,000 options to employees and a consultant with an exercise price of \$0.55 vesting immediately. One third of the options issued expire in 2 years with the remaining two thirds expiring in 5 years.
- The fair value of the 366,667 options granted during the period that expire in two years was estimated at \$81,616 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 72%; (c) risk free interest rate of 0.98% and; (d) expected life of 2 years.
- The fair value of the 733,333 options granted during the period that expire in five years was estimated at \$287,696 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 91%; (c) risk free interest rate of 0.98% and; (d) expected life of 5 years.
- During the three month period ended September 30, 2011, \$16,833 of share-based payments was recognized in connection with options containing vesting provisions issued during the year ended June 30, 2011.

Activity during the year ended June 30, 2011:

- 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.
- 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 \$65,131. Relating to this fair value, \$54,411 was recorded as stock based compensation expense while \$10,720 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 using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0%; (b) expected volatility of 95%; (c) risk free interest rate of 1.89% and; (d) expected life of 3 years.

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**16. 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, reserve for warrants, reserve for share-based payments, accumulated other comprehensive income and accumulated deficit, in the definition of capital which totals \$6,516,410 at September 30, 2011 (June 30, 2011 - \$9,199,771).

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 three months ended September 30, 2011.

**17. 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.

**(a) Market Risk**

The Company is exposed to foreign exchange risk from various currencies, primarily CDN 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 CDN cash on hand to support CDN 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.

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**17. FINANCIAL RISK MANAGEMENT, (continued)**

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

|                                    | <b>September 30, 2011</b> | <b>June 30, 2011</b> |
|------------------------------------|---------------------------|----------------------|
| Cash                               | \$ 1,634,476              | \$ (23,206)          |
| Other financial assets             | \$ 95,000                 | \$ 7,095,000         |
| Trade and other receivables        | \$ 142,441                | \$ 51,952            |
| Prepaid expenses and sundry assets | \$ 194,349                | \$ 309,998           |
| Reclamation bonds                  | \$ 19,491                 | \$ 19,491            |
| Long-term investments              | \$ 1,875,911              | \$ 1,466,152         |
| Plant and equipment                | \$ 52,822                 | \$ -                 |
| Trade and other payables           | \$ (565,948)              | \$ (650,899)         |
|                                    | <b>\$ 3,448,542</b>       | <b>\$ 8,268,488</b>  |

Based on the above net exposures as at September 30, 2011, and assuming that all other variables remain constant, a 5% change in the value of the Canadian dollar against the US dollar would result in an increase/decrease of approximately \$170,000 in the loss from operations (2011 - \$410,000).

**(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 Company has designated its cash and other financial assets as FVTPL, which is measured at fair value. Investment in Argentium Resources Inc. is classified as available-for-sale, which are measured at fair value. Fair value is determined based on transaction value and is categorized as Level 1 measurement.

As at September 30, 2011, the carrying and fair value amounts of trade and other receivables, sundry assets and trade and other payables are approximately equivalent due to the relatively short term maturities of these financial instruments.

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 reclamation bonds and restoration liabilities approximate its fair value as the amount is reassessed annually by the MDEQ.

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**17. FINANCIAL RISK MANAGEMENT, (continued)**

**(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 September 30, 2011 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 8), 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 16.

As at September 30, 2011, the Company has current liabilities of \$3,046,744 (June 30, 2011 - \$3,087,190) due within 12 months and has cash, other financial assets, trade and other receivables, and prepaid expenses and sundry assets which total \$4,925,988 (June 30, 2011 - \$8,746,386) to meet its current obligations. As at September 30, 2011 the Company has a working capital surplus of \$1,879,244 (June 30, 2011 - \$5,659,196). Management will continue to raise capital to fund the Company's exploration, development and feasibility expenditures and for general and administrative costs.

**18. 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. During the three months ended September 30, 2011, the Company incurred incremental professional fees totaling \$178,708 (2010 - \$nil) in connection with the proxy contest consisting of legal, accounting, communication and proxy solicitation fees.

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**19. 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:

Included in trade and other payables is \$12,936 (June 30, 2011 - \$53,159) due to the Company's former legal counsel who is a director of the Company.

During the three months ended September 30, 2011:

Included in professional and consulting fees are \$42,848 (2010 - \$Nil) of consulting fees paid to a company controlled by a former officer and current director of the Company and \$Nil (2010 - \$36,975) of consulting fees paid to a company controlled by a former director of the Company.

Included in office and general is \$Nil (2010 - \$9,993) of fees paid to a company controlled by a former director of the Company, related to rent and office expenses, and \$Nil (2010 - \$8,970) of fees paid to a company controlled by a former director of the Company.

Included in capital stock is \$Nil (2010 - \$3,555) of share issuance costs for fees paid to the Company's legal counsel who is a director of the Company.

**20. CONTINGENCIES**

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.

**21. EXPLORATION AND EVALUATION EXPENDITURES**

The evaluation and exploration expenses for the Company are broken down as follows:

|  | <b>Three months ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>September 30, 2011</b> | September 30, 2010 |
|  | \$                        | \$                 |
| Hard Rock claims                               | <b>8,311,557</b>          | 3,412,874          |
| Placer claims                                  | -                         | 1,839              |
| Bald Butte claims                              | -                         | 4,772              |
| <b>Exploration and evaluation expenditures</b> | <b>8,311,557</b>          | <b>3,419,485</b>   |

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**22. TRADE AND OTHER RECEIVABLES**

The Company's trade and other receivables arise from two main sources: trade receivables due from settlement revenues, stock option exercises and harmonized services tax ("HST") receivable due from government taxation authorities. These are broken down as follows:

|  | <b>As at,</b>             |               |              |
|--|---------------------------|---------------|--------------|
|  | <b>September 30, 2011</b> | June 30, 2011 | July 1, 2010 |
|  | \$                        | \$            | \$           |
| Trade receivables                        | <b>1,746,679</b>          | 85,074        | 336,441      |
| GIC interest receivable                  | -                         | 53,448        | 1,660        |
| HST receivable                           | <b>40,707</b>             | -             | -            |
| <b>Total Trade and Other Receivables</b> | <b>1,787,386</b>          | 138,522       | 338,101      |

Below is an aged analysis of the Company's trade and other receivables:

|  | <b>As at,</b>             |               |              |
|--|---------------------------|---------------|--------------|
|  | <b>September 30, 2011</b> | June 30, 2011 | July 1, 2010 |
|  | \$                        | \$            | \$           |
| Less than 1 month                        | <b>1,787,386</b>          | 53,863        | 338,101      |
| 1 to 3 months                            | -                         | 84,659        | -            |
| <b>Total Trade and Other Receivables</b> | <b>1,787,386</b>          | 138,522       | 338,101      |

At September 30, 2011, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the trade and other receivable has been further discussed in Note 17.

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2011.

**23. TRADE AND OTHER PAYABLES**

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities, amounts payable for financing activities and payroll liabilities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

|                                       | <b>As at,</b>             |               |              |
|---------------------------------------|---------------------------|---------------|--------------|
|                                       | <b>September 30, 2011</b> | June 30, 2011 | July 1, 2010 |
|                                       | \$                        | \$            | \$           |
| Less than 1 month                     | <b>2,799,682</b>          | 2,116,638     | 761,694      |
| 1 to 3 months                         | <b>238,284</b>            | 970,552       | 359,209      |
| Over 3 months                         | <b>8,778</b>              | -             | 9,945        |
| <b>Total Trade and Other Payables</b> | <b>3,046,744</b>          | 3,087,190     | 1,110,958    |

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**24. SEGMENTED INFORMATION**

**Operating Segments**

At September 30, 2011 the Company's operations comprise a single reporting operating segment engaged in gold and silver exploration in Montana. The Company's corporate division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 '*Operating Segments*'. As the operations comprise a single reporting segment, amounts disclosed in the unaudited interim financial statements also represent operating segment amounts.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

**25. SUBSEQUENT EVENTS**

Subsequent to quarter end, the Company through its wholly-owned subsidiary Drumlummon Ltd. (the "Borrower") entered into a senior secured line of credit facility agreement (the "Credit Agreement") with an affiliate of Hale Capital Partners, L.P., for up to \$10 million. All amounts owing under the Credit Agreement are guaranteed by the Company. Outstanding amounts under the Credit Agreement accrue interest at a fixed rate of 8.75% per annum with interest payable monthly in arrears starting the sixth month after the initial advance of funds. Amounts owing under the Credit Agreement may be prepaid in whole or in part without premium or penalty at any time and any remaining outstanding amounts are due on or before May 8, 2013. The Credit Agreement is secured by a first charge against all the properties and assets of the Borrower, the Company and certain of its subsidiaries.

Subsequent to quarter end, 600,000 stock options were exercised into common shares at exercise prices ranging from CDN\$0.15 to CDN\$0.32 for gross proceeds of CDN\$139,000 (\$134,751).

Subsequent to quarter end, 445,740 warrants were exercised into common shares at exercise price of CDN\$0.20 for gross proceeds of CDN\$89,148 (\$88,199).

Subsequent to quarter end, the Company acquired or entered into agreements to acquire several parcels of land in Lewis and Clark County, Montana for \$1,505,000 if all options were exercised. This payment is to be paid as follows: \$380,000 on signing (paid), and \$1,125,000 to be paid at various dates from April 29, 2012 through to April 29, 2019. These payments are subject to interest at various rates of between 3.5 - 5% p.a. Some of these parcels are subject to a net 2% NSR, after certain conditions are met.