

**RX EXPLORATION INC.**

**NOTICE OF ANNUAL AND SPECIAL MEETING  
OF SHAREHOLDERS TO BE HELD ON  
MARCH 11, 2010**

**AND**

**MANAGEMENT INFORMATION CIRCULAR  
DATED FEBRUARY 8, 2010**

**RX EXPLORATION INC.**

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**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that an annual and special meeting of shareholders of **RX EXPLORATION INC.** (the “Corporation”) will be held on Thursday, March 11, 2010 at The Toronto Board of Trade, 3<sup>rd</sup> Floor, MacDonald/Brule Room, 1 First Canadian Place, 77 Adelaide Street West (Adelaide Street Entrance), Toronto, Ontario, at 4:15 p.m. (Toronto time) (the “Meeting”), for the following purposes:

1. to receive the audited financial statements of the Corporation for the fiscal year ended June 30, 2009 together with the report of the auditors thereon;
2. to elect directors of the Corporation for the ensuing year;
3. to appoint auditors and to authorize the directors to fix their remuneration;
4. to re-approve the existing Stock Option Plan of the Corporation; and
5. to transact such further or other business as may properly come before the Meeting or any adjournment or adjournments thereof.

Accompanying this Notice of Meeting are a management information circular, a form of proxy (if you are a registered shareholder) or a Voting Instruction Form (if you are a non-registered shareholder), a supplemental mailing list form and the audited financial statements of the Corporation for the fiscal year ended June 30, 2009. The accompanying management information circular provides information relating to the matters to be addressed at the Meeting and is incorporated into this Notice of Meeting. Shareholders who are unable to attend the meeting in person are requested to complete, date, sign and return the enclosed form of proxy or Voting Instruction Form in accordance with the instructions set out in the form of proxy or Voting Instruction Form and in the accompanying management information circular. Please advise the Corporation of any change in your mailing address.

**Only holders of voting common shares of record at the close of business on February 3, 2010 (the “Record Date”) will be entitled to vote at the Meeting.**

**DATED** at Toronto, Ontario the 8<sup>th</sup> day of February, 2010.

**BY ORDER OF THE BOARD**

John F. O’Donnell  
Chairman of the Board

## **RX EXPLORATION INC.**

### **MANAGEMENT INFORMATION CIRCULAR**

#### **SOLICITATION OF PROXIES**

The management information circular (the “Management Information Circular”) is furnished in connection with the solicitation of proxies by the management of **RX EXPLORATION INC.** (the “Corporation”) for use at the annual and special meeting of shareholders of the Corporation (the “Meeting”) to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting and at any adjournment thereof.

#### **PERSONS OR COMPANIES MAKING THE SOLICITATION**

The enclosed form of proxy (the “Proxy”) is solicited by management. Solicitations will be made by mail and possibly supplemented by telephone or other personal contact to be made by regular officers and employees of the Corporation at nominal cost. The cost of solicitation by management will be borne directly by the Corporation. None of the directors of the Corporation have advised that they intend to oppose any action intended to be taken by management as set forth in the management information circular.

#### **APPOINTMENT AND REVOCATION OF PROXIES**

The persons named in the accompanying Proxy are officers and/or directors of the Corporation. **A shareholder has the right to appoint a person, other than the persons named in the Proxy, to attend and act for him on his behalf at the Meeting. To exercise this right, a shareholder must strike out the names of the persons named in the Proxy and insert the name of his nominee in the blank space provided, or complete another proxy.** To be effective, the completed Proxy must be deposited with its Registrar and Transfer Agent, **Equity Transfer & Trust Company, Suite 400, 200 University Ave., Toronto, Ontario M5H 4H1, Fax: (416) 361-0470** at least 48 hours before the time of the Meeting or any adjournment thereof, excluding Saturdays, Sundays and holidays.

In addition to any other manner permitted by law, a proxy may be revoked before it is exercised by instrument in writing executed in the same manner as a proxy and deposited at the registered office of the Company at any time up to and including the close of business on the second business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of the Meeting on the day of such Meeting or any adjournment thereof and thereupon the proxy is revoked. A shareholder attending the Meeting has the right to vote in person and if he does so, his proxy is nullified with respect to the matters such person votes upon and any subsequent matters thereafter to be voted upon at the Meeting or any adjournment thereof.

Please note that shareholders who receive their Meeting Materials (as defined in the “Advice to Beneficial Shareholders” section below) from ADP Proxy Services (“ADP”) must return the proxy forms, once voted, to ADP for the proxy to be dealt with.

#### **ADVICE TO BENEFICIAL SHAREHOLDERS**

Only registered shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, common shares owned by a person are registered either (a) in the name of an intermediary (an “Intermediary”) that the non-registered holder deals with in respect of the common shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered savings plans, registered retirement income funds, registered education savings plans and similar plans); or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited (“CDS”)) of which the Intermediary is a participant (a “non-registered holder”). In accordance with the requirements

of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Management Information Circular and the accompanying Notice of Meeting together with the Proxy (collectively, the “Meeting Materials”) to the clearing agencies and Intermediaries for onward distribution to non-registered holders of common shares. Intermediaries are required to forward the Meeting Materials to non-registered holders unless a non-registered holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to non-registered holders. Generally, non-registered holders who have not waived the right to receive Meeting Materials will either:

- (a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile stamped signature), which is restricted as to the number and class of securities beneficially owned by the non-registered holder but which is not otherwise completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the non-registered holder when submitting the proxy. In this case, the non-registered holder who wishes to vote by proxy should otherwise properly complete the form of proxy and deliver it as specified; or
- (b) be given a form of proxy which is not signed by the Intermediary and which, when properly completed and signed by the non-registered holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a “Voting Instruction Form”) which the Intermediary must follow. Typically the non-registered holder will also be given a page of instructions which contains a removable label containing a bar code and other information. In order for the form of proxy to validly constitute a Voting Instruction Form, the non-registered holder must remove the label from the instructions and affix it to the Voting Instruction Form, properly complete and sign the Voting Instruction Form and submit it to the Intermediary or its service company in accordance with the instructions of the Intermediary or its service company.

In either case, the purpose of this procedure is to permit non-registered holders to direct the voting of the common shares they beneficially own. Should a non-registered holder who receives either form of proxy wish to vote at the Meeting in person, the non-registered holder should strike out the persons named in the form of proxy and insert the non-registered holder’s name in the blank space provided. Non-registered holders should carefully follow the instructions of their Intermediary including those regarding when and where the form of proxy or Voting Instruction Form is to be delivered.

All references to shareholders in the management information circular and the accompanying Proxy and Notice of Meeting are to shareholders of record unless specifically stated otherwise.

### **VOTING AND EXERCISES OF DISCRETION BY PROXIES**

The Proxy affords the shareholder an opportunity to specify that the shares registered in his name shall be voted or withheld from voting in respect of the election of directors and the appointment of auditors. The Proxy also affords the shareholder the opportunity to specify that the shares registered in his name shall be voted in favour of or against any resolutions proposed for approval at the Meeting in accordance with such direction. On any ballot that may be called for, the shares represented by proxies in favour of management nominees will be voted or withheld from voting in respect of the election of directors and the appointment of auditors and authorizing the directors to fix the remuneration of the auditors, in each case in accordance with the specifications made by shareholders in the manner referred to above.

**In the absence of any direction in the Proxy, it is intended, if management’s proxyholders are selected, that such shares will be voted with respect to the election of directors and/or the appointment of the auditors in the manner proposed by management herein, on any ballot that may be called for, in respect of such matters, and IN FAVOUR of the motions proposed to be made at the Meeting as stated under the headings in the management information circular.** The enclosed Proxy, when properly signed, confers discretionary authority with respect to amendments or variations to any matters which may properly be brought before the Meeting. At the time of printing of the management information circular, management of the Corporation is not aware that any such

amendments, variations or other matters are to be presented for action at the Meeting. However, if any other matters which are not now known to the management should properly come before the Meeting, the Proxies hereby solicited will be exercised on such matters in accordance with the best judgment of the person or persons voting such proxies.

### **Level of Approval Required**

In order to be effective, the resolutions concerning the general matters to be considered by the shareholders at this meeting including the election of directors and the appointment and remuneration of auditors must be passed by a majority of the votes cast at the Meeting.

### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The authorized capital of the Corporation consists of an unlimited number of common shares (the “Common Shares”). As of February 3, 2010 (the “Record Date”), 83,114,911 Common Shares were issued and outstanding, each share carrying the right to one vote.

At a general meeting of shareholders of the Corporation, on a show of hands, every shareholder holding Common Shares, present in person, shall have one vote and, on a poll, every shareholder holding Common Shares shall have one vote for each Common Share of which he is the holder.

Only shareholders or record on the close of business on the Record Date, who either personally attend the Meeting or who complete and deliver a proxy in the manner and subject to the provisions set out under the heading “Appointment and Revocation of Proxies” will be entitled to have his or her shares voted at the Meeting or any adjournment thereof. If the shareholder has transferred any of his or her shares after the Record Date and the transferee of those shares produces properly endorsed share certificates or otherwise establishes that the transferee owns the shares and demands, not later than ten days before the Meeting, the transferee shall be entitled to vote his or her shares at the Meeting.

The following table shows, as at the date hereof, each person who is known to the Corporation, or its directors and officers to beneficially own, directly or indirectly, or that controls or directs, more than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation entitled to vote at the Meeting.

Name	Number of Voting Securities	Percentage of Outstanding Voting Securities <sup>(1)</sup>
CDS & Co. NCI Account <sup>(2)</sup>	50,688,265 common shares	60.96%
Spruce Ridge Resources Ltd. <sup>(2)</sup>	7,500,000 common shares	10.17%
John A. Ryan <sup>(2)</sup>	949,166 common shares	

Notes: (1) Based on 83,114,911 common shares issued and outstanding as at the date hereof.

(2) CDS & Co. holds the common shares on behalf of financial intermediaries. The Corporation does not believe that they represent the beneficial holdings of any individual person or corporation who owns more than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation with the exception that Spruce Ridge Resources Ltd. of which John A. Ryan is the President and Chief Executive Officer collectively owned 10.17% of the outstanding voting securities of the Corporation.

The following documents are filed with the securities commissions or similar regulatory authority in Ontario and are specifically incorporated by reference into, and form an integral part of, the management information circular:

- (a) audited financial statements for the fiscal year ended June 30, 2009;

- (b) interim financial statements for the first quarter ended September 30, 2009;
- (c) management discussion and analysis for the fiscal year ended June 30, 2009; and
- (d) management discussion and analysis for the first quarter ended September 30, 2009.

Copies of these documents incorporated by reference herein may be obtained by a shareholder upon request without charge from the Secretary of the Corporation. These documents are also available on the internet through SEDAR, which can be accessed at [www.sedar.com](http://www.sedar.com).

#### **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

None of the directors or senior officers of the Corporation, no proposed nominee for election as a director of the Corporation, none of the persons who have been directors or senior officers of the Corporation since the commencement of the Corporation's last completed financial year and no associate or affiliate of any of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting other than the election of directors and the appointment of officers except as disclosed herein.

#### **ELECTION OF DIRECTORS**

The Corporation currently has seven directors and the board of directors has determined to have seven directors nominated for the ensuing year.

Each director of the Corporation is elected annually and holds office until the next annual meeting of the shareholders unless that person ceases to be a director before then. In the absence of instructions to the contrary, the shares represented by the Proxy will, on a poll, be voted (if management's proxies are selected) in favour of the nominees herein listed. Management does not contemplate that any of the nominees will be unable to serve as a director.

The following table sets out the names of the management's nominees for election as directors, the positions and offices which they presently hold with the Corporation, the length of time they have served as directors of the Corporation, their respective principal occupations or employments during the past five years, if such nominee is not presently an elected director and the number of voting shares of the Corporation which each beneficially owns, directly or indirectly, or over which control or direction is exercised as of the date of the management information circular.

Name and Country of Residence of Proposed Directors	Office Held	Principal Occupation for Previous Five Years	Director Since	Number of Voting Shares <sup>(1)</sup>
Edward L. Ellwood* London, Ontario	Director	Management consultant and independent business owner	Apr 10, 2006	10,000 directly
Murray R. Nye* Winnipeg, Manitoba	Director	Independent financial consultant specializing in acquisitions and mergers	Mar 29, 2000	684,580 directly 150,000 indirectly (Pan-Asia Limited) 350,000 indirectly (2125820 Manitoba Ltd.) 2,886,473 indirectly (Venbanc) <sup>(2)</sup>

Name and Country of Residence of Proposed Directors	Office Held	Principal Occupation for Previous Five Years	Director Since	Number of Voting Shares <sup>(1)</sup>
John F. O'Donnell Toronto, Ontario	Director, Chairman of the Board	Independent lawyer practising in Toronto, Ontario  Counsel to Stikeman Keeley Spiegel Pasternack LLP, Barristers & Solicitors, from December 2007 to current	Nov 2, 2007	5,563,700 directly
John A. Ryan, CGA* Norfolk County, Ontario	Director	Currently President and Chief Executive Officer of Spruce Ridge Resources Ltd. Mr. Ryan is also a CGA (Certified General Accountant) who is currently President of Nichage Enterprises Ltd., a financial consulting company and has been for the past five years	Jan 20, 2009	949,166 directly  7,500,000 indirectly (Spruce Ridge Resources Ltd.)
Paul V. Teodorovici Pointe Claire, Quebec	Director	Independent property management and financing consultant in Montreal, Quebec for the last five years	Feb 4, 2009	Nil
Maxwell A. Polinsky Winnipeg, Manitoba	Director	Independent financial consultant specializing in acquisitions and mergers	Dec 8, 2009	1,141,106 directly  2,886,473 indirectly (Venbanc) <sup>(2)</sup>
William J. Fisher Toronto, Ontario	Director	Currently Chief Executive Officer of Karmin Exploration Inc.; Chairman of Aurelian Resources Inc. 2003 to 2008; Chief Executive Officer and Director of GlobeStar Mining Corp. 2001 to 2007	Jan 12, 2010	Nil

- Notes:
- (1) The information as to shares beneficially owned or over which control or direction is exercised not being within the knowledge of the Corporation has been furnished by the respective nominees individually. Directors may also receive options.
  - (2) Each of Murray R. Nye and Maxwell A. Polinsky owns 50% of Venbanc Investment and Management Group Inc. (Venbanc) which owns 2,886,473 common shares of the Corporation.
  - (3) \* Denotes member of the audit committee.

The term of office of each director will be from the date of the Meeting until the next annual meeting of the Corporation or until his successor is elected or appointed.

**Proxies received in favour of Management will be voted for the election of the nominees whose names are hereinafter set forth unless instructions are given to withhold from voting on the election of directors.**

To the knowledge of the Corporation, no proposed director is, or has, within the 10 years before the date of the management information circular, been a director or executive officer of any company that, while that person was acting in that capacity:

- (a) was the subject of a cease trade order or similar order or an order that denied relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days; or
- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No proposed director of the Corporation has, within the 10 years before the date of the management information circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

## **EXECUTIVE COMPENSATION**

### **Executive Officers of the Corporation**

Set out below are particulars of compensation paid to the following persons (the “Named Executive Officers”):

- (a) the Corporation’s Chief Executive Officer (“CEO”);
- (b) the Corporation’s Chief Financial Officer (“CFO”);
- (c) the Corporation’s Chief Operating Officer (“COO”),
- (d) each of the Corporation’s three most highly compensated executive officers, other than the CEO, CFO and COO, who were serving as executive officers at the end of the most recently completed fiscal year and whose total salary and bonus exceeds \$150,000 per year, and
- (e) any additional individuals for whom disclosure would have been provided under (d) but for the fact that the individual was not serving as an officer of the Corporation at the end of the most recently completed fiscal year.

During the fiscal year ended June 30, 2009, Murray R. Nye was the only Named Executive Officer of the Corporation.

### **Summary Compensation Table**

The following table is a summary of compensation paid to the Named Executive Officers for each of the Corporation’s three most recently completed fiscal years.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	AWARDS		PAYOUTS	
					Securities Under Options/ SARs Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
Murray R. Nye, President and Chief Executive Officer	2009	Nil	Nil	\$60,000 <sup>(1)</sup>	500,000	Nil	Nil	Nil
	2008	Nil	Nil	\$50,000 <sup>(1)</sup>	550,000	Nil	Nil	Nil
	2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Note: (1) The sum of \$50,000 was paid to Venbank which is 50% owned by the Named Executive Officer.

### Option/SAR Grants During the Twelve Months Ended June 30, 2009

The Corporation granted 1,250,000 stock options to the Named Executive Officer under the Corporation's existing stock option plan during the twelve months ended June 30, 2009.

### Aggregated Option/SAR Exercises During the Twelve Months Ended June 30, 2009 and Stock Option Values as at June 30, 2009

The following table sets forth information regarding the exercise of options held by the Named Executive Officers during the twelve months ended June 30, 2009 and the aggregate number of outstanding options held by the Named Executive Officers, all of which options were exercisable, and the value of such options, in each case as at June 30, 2009.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs At June 30, 2009 (#)		Value of Unexercised In-the-Money Options/SARs at June 30, 2009 (\$)	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Murray R. Nye President and Chief Executive Officer	Nil	Nil	Nil	Nil	Nil	Nil

### OUTSTANDING OPTIONS

As of current date, there are 6,570,000 stock options outstanding under the existing stock option plan as follows:

Holder	Common Shares Under Option (#)	Exercise Price (\$/Share)	Expiry Date
Executive officers as a group (1)	750,000	\$0.32	Jan 29, 2013
	500,000	\$0.25	Jan 28, 2012
Directors who are not executive officers, as a group (6)	300,000	\$0.15	Nov 10, 2011
	1,200,000	\$0.25	Jan 28, 2012
	200,000	\$0.25	Feb 4, 2012
	800,000	\$0.32	Jan 29, 2013
	300,000	\$0.44	Jan 8, 2013
	300,000	\$0.37	Jan 12, 2013

Holder	Common Shares Under Option (#)	Exercise Price (\$/Share)	Expiry Date
Consultants (8)	1,400,000	\$0.32	Jan 29, 2013
	400,000	\$0.70	May 22, 2010
	200,000	\$0.70	Aug 22, 2010
	225,000	\$0.44	Jan 8, 2013
Others (7)	145,000	\$0.44	Jan 8, 2013
	100,000	\$0.15	Nov 10, 2011
	150,000	\$0.25	Jan 28, 2012
	100,000	\$0.32	Jan 29, 2013

### DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

The Corporation does not have any defined benefit or actuarial plans under which benefits are determined primarily by final compensation (or average final compensation) and years of service for the Executive Officer.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Corporation does not have any equity compensation plans.

### TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

The Corporation and its subsidiaries have no employment contracts with any Named Executive Officer.

The Corporation and its subsidiaries have no compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive more than \$100,000 to compensate such executive officers in the event of resignation, retirement or other termination, a change of control of the Corporation or its subsidiaries or a change in responsibilities following a change in control.

There were no long-term incentive awards made to the executive officers of the Corporation during the fiscal year ended June 30, 2009. There are no pension plan benefits in place for the Executive Officer and none of the Executive Officer, other officers or directors of the Corporation are indebted to the Corporation. In addition, there are no plans in place with respect to the Executive Officer for termination of employment or change in responsibilities.

### COMPENSATION OF DIRECTORS

Directors who are not officers of the Corporation are not currently paid any fees for their services as directors, however, such directors are entitled to receive compensation from the Corporation to the extent that they provide services to the Corporation. Any such compensation is based on rates that would be charged by such directors for such services to arm's length parties. Included in accounts payable and accrued liabilities for the fiscal year ended June 30, 2009 is \$74,252 due to a law firm of which a director of the Company was counsel and \$40,000 due to Venbanc Investment and Management Group Inc., a company controlled by significant shareholders and \$12,500 due to Chatham Bay Limited, a company controlled by a director of the Corporation.

Directors who are not officers are also entitled to participate in the Corporation's existing stock option plan and, at the time of joining the board, directors may be granted options to purchase Common Shares.

## **COMPENSATION POLICY**

The executive compensation policy of the Corporation is determined with a view to securing the best possible talent to run the Corporation. Executive officers expect to reap additional income from the appreciation in the value of the Common Shares they hold in the Corporation, including stock options.

Options are awarded to executive officers in lieu of higher salaries. Bonuses may be paid in the future for significant and specific achievements which have a strategic impact on the fortunes of the Corporation. Compensation is determined on a judgmental basis after review by the board of directors of the contribution of each individual, including the executive officers of the Corporation. Although they may be members of the board of directors, the executive officers do not individually make any decisions with respect to their respective compensation.

The grant of stock options under the Corporation's existing stock option plan is designed to give each option holder an interest in preserving and maximizing shareholder value in the longer term and to reward employees for both past and future performance. Individual grants are determined by an assessment of an individual's current and expected future performance, level of responsibilities and the importance of his position with and contribution to the Corporation.

### **INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS**

No insider of the Corporation, no proposed nominee for election as a director of the Corporation, and no associate or affiliate of any of the foregoing, has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's last financial year or in any proposed transaction, which, in either case, has materially affected or will materially affect the Corporation or any of its subsidiaries, other than disclosed under the headings "Executive Compensation".

### **POTENTIAL CONFLICTS OF INTEREST**

Some of the directors and officers of the Corporation also serve as directors and officers of other companies. Consequently, there exists a possibility for any such director or officer to be placed in a position of conflict. Each such director or officer is subject to fiduciary duties and obligations to act honestly and in good faith with a view to the best interests of the Corporation.

### **APPOINTMENT OF AUDITORS**

Unless such authority is withheld, the persons named in the enclosed form of proxy intend to vote for the appointment of Collins Barrow Toronto LLP, Chartered Accountants (formerly known as DMCT LLP), of 20 Eglinton Avenue West, Suite 2100, P.O. Box 2014, Toronto, Ontario M4R 1K8, as auditors of the Corporation to hold office for the fiscal year ending June 30, 2010 at a remuneration to be fixed by the directors.

### **MANAGEMENT CONTRACTS**

Management functions of the Corporation are performed by directors and senior officers of the Corporation and to some degree, by other persons with whom the Corporation has contracted. At this time, there are no management contracts in place with a number of the directors or senior officers of the Corporation who currently manage the Corporation on a consulting basis.

### **PARTICULARS OF OTHER MATTERS TO BE ACTED UPON**

In addition to the ordinary business to be conducted at the Meeting, approval of the Corporation's shareholders is being sought for the following matters:

#### **Approval of Continuation of the Stock Option Plan**

Currently, the Corporation has a 10% "rolling" Stock Option. The shareholders will be asked to re-approve the

Corporation's existing Stock Option Plan.

**Proxies received in favour of Management will be voted for the approval of the rolling Stock Option Plan unless a shareholder has specified in the Proxy that the shares are to be voted against such resolution.**

Shareholders are asked to pass the following ordinary resolution authorizing the re-approval of the existing Stock Option Plan:

“BE IT RESOLVED AS AN ORDINARY RESOLUTION THAT:

1. the 10% “rolling” stock option plan currently in place be re-approved; and
2. any director or officer of the Corporation is hereby authorized to execute (whether under the corporate seal of the Corporation or otherwise) and deliver all such documents and to do all such other acts and things as such director or officer may determine to be necessary or advisable in connection with such re-approval, the execution of any such document or the doing of any such other act or thing by any director or officer of the Corporation being conclusive evidence of such determination.”

The affirmative vote of a majority of the votes cast at the Meeting in respect thereof is required in order to pass such resolution.

## **AUDIT COMMITTEE**

### **Relationship with Auditors**

Multilateral Instrument 52-110 of the Canadian Securities Administrators (“MI 52-110”) requires the Corporation, as a Venture Issuer, to disclose annually in its information circular certain information relating to the Corporation's Audit Committee and its relationship with the Corporation's independent auditors.

### **Audit Committee Charter**

The Audit Committee Charter is annexed hereto as Schedule “A”.

### **Composition of the Audit Committee**

The Corporation's Audit Committee is comprised of three directors. The audit committee of the Corporation during the past fiscal year was composed of Murray R. Nye, John A. Ryan and Edward L. Ellwood. As defined in MI 52-110, all the audit committee members are “financially literate”. They have the industry experience necessary to understand and analyze financial statements of the level of complexity of the Corporation, as well as the understanding of internal controls and procedures necessary for financial reporting.

### **Audit Committee Oversight**

Since the commencement of the Corporation's most recently completed fiscal year, the Corporation's board of directors has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

### **Reliance on Certain Exemptions**

Since the commencement of the Corporation's most recently completed fiscal year and the effective date of MI 52-110, the Corporation has not relied on the exemptions contained in section 2.4 or section 8 of MI 52-110. Section 2.4 provides an exemption from the requirement that the audit committee must pre-approve all non-audit services to be

provided by the auditors, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total amount of fees payable to the auditor in the fiscal year in which the non-audit services were provided. Section 8 permits a company to apply to a securities regulatory authority for an exemption from the requirements of MI 52-110, in whole or in part.

### **Pre-Approved Policies and Procedures**

The Corporation has not adopted specific policies and procedures for the engagement of non-audit services. The Audit Committee will review the engagement of non-audit services as required.

### **Exemption**

The Corporation is relying on the exemption provided by Part 6.1 of MI 52-110 for Venture Issuers which allows for an exemption from Part 5 (Reporting Obligations) of MI 52-110 and allows for the short form of disclosure of audit committee procedures set out in Form 52-110F2 and disclosed in the management information circular.

### **External Auditor Service Fees including GST (by category)**

The aggregate fees billed by the Corporation's external auditors in each of the last two fiscal years for audit and other fees are as follows:

	<b>Year ended June 30, 2008 \$</b>	<b>Year ended June 30, 2009 \$</b>
(a) Audit Fees <sup>(1)</sup>	27,000	34,000
(b) Audit Related Fees <sup>(2)</sup>	Nil	Nil
(c) Tax Fees <sup>(3)</sup>	12,000	15,738
(d) All Other Fees <sup>(4)</sup>	Nil	Nil

Notes:

- (1) Fees paid for services provided in auditing the Corporation's annual financial statements. The audit fee for 2010 has not yet been proposed by the auditors of the Corporation and is subject to review and approval by the audit committee.
- (2) Fees not included in "audit fees" that are billed by the auditors for the assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's statements.
- (3) Fees billed by the auditors for professional services rendered for tax compliance, tax advice and tax planning.
- (4) Fees billed by the auditors for products and services not included in the foregoing categories.

### **STATEMENT OF CORPORATE GOVERNANCE PRACTICE**

The Ontario Securities Commission has issued guidelines on corporate guidance disclosure for Venture Issuers as set out in Form 58-101F2 (the "Disclosure"). The Disclosure addresses matters relating to constitution and independence of directors, the functions to be performed by the directors of a company and their committees and effectiveness and evaluation of proposed corporate governance guidelines and best practices specified by the Canadian securities regulators. The Corporation's approach to corporate governance in the context of the eight (8) specific Disclosure issues outlined in Form 58-101F2 is set out in the attached Schedule "B".

Similar duties and obligations will apply to such other companies. Thus, any future transaction between the Corporation and such other companies will be for bona fide business purposes and approved by a majority of disinterested directors of the Corporation.

## **INDEBTEDNESS OF OFFICERS AND DIRECTORS TO THE CORPORATION**

No officer or director of the Corporation was indebted to the Corporation at any time during the fiscal year ended June 30, 2009.

## **FINANCIAL STATEMENTS**

Accompanying these materials are the audited financial statements of the Corporation for the fiscal year ended June 30, 2009 with comparable figures for the fiscal year ended June 30, 2008, together with the auditors' report thereon.

## **APPROVAL OF BOARD OF DIRECTORS**

The contents of the Circular and the mailing of it to holders of Common Shares of the Corporation, to each director of the Corporation, to the auditors of the Corporation, and to the appropriate governmental agencies, have been approved by the directors of the Corporation.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Corporation's comparative financial statements and management's discussion and analysis ("MD&A") for the fiscal year ended June 30, 2009 and for the first quarter ended September 30, 2009.

Copies of the Corporation's financial statements and MD&A may also be obtained upon request by contacting Murray R. Nye, President and Secretary of the Corporation at:

Suite 406, 138 Portage Avenue East  
Winnipeg, Manitoba R3C 0A1  
Canada  
Tel: (204) 989-2434  
Fax: (204) 989-2433

The Corporation may require the payment of a reasonable charge if the request is made by a person who is not a shareholder of the Corporation.

**DATED** at Toronto, Ontario the 8<sup>th</sup> day of February, 2010.

## **BY ORDER OF THE BOARD**

(Signed) John F. O'Donnell  
Chairman of the Board

**Schedule “A”****AUDIT COMMITTEE CHARTER  
(the “Charter”)****Mandate**

The primary function of the audit committee is to assist the board of directors in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders, the Corporation’s systems of internal controls regarding finance and accounting, and the Corporation’s auditing, accounting and financial reporting processes. Consistent with this function, the audit committee will encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels. The audit committee’s primary duties and responsibilities are to:

1. serve as an independent and objective party to monitor the Corporation’s financial reporting and internal control systems and review the Corporation’s financial statements;
2. review and appraise the performance of the Corporation’s external auditors; and
3. provide an open avenue of communication among the Corporation’s auditors, financial and senior management and the board of directors.

**Composition**

The audit committee shall be comprised of at least three directors as determined by the board of directors, the majority of whom shall meet the legal requirements applicable to the composition of the audit committee. At least one member of the audit committee shall have accounting or related financial management expertise. All members of the audit committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Charter, the definition of “financially literate” is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Corporation’s financial statements. The members of the audit committee shall be elected annually by the board of directors at its first meeting following the annual shareholders’ meeting.

**Meetings**

The audit committee shall meet with the frequency that the audit committee determines appropriate.

**Responsibilities and Duties**

To fulfil its responsibilities and duties, the audit committee shall:

**Documents/Reports Review**

1. Review and, if necessary, update the Charter annually.
2. Review the Corporation’s financial statements, MD&A and any annual and interim earnings, press releases before the Corporation publicly discloses this information and any reports or other financial information (including quarterly financial statements), which are submitted to any governmental body, or to the public, including any certification, report, or review rendered by the external auditors.
3. Confirm that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements.

External Auditors

1. Review annually, the performance of the external auditors who shall be ultimately accountable to the board of directors and the audit committee as representatives of the shareholders of the Corporation.
2. Obtain annually, a formal written statement of the external auditors setting forth all relationships between the external auditors and the Corporation, consistent with the Independence Standards Board Standard 1 or succeeding policy.
3. Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
4. Take, or recommend that the full board of directors take, appropriate action to oversee the independence of the external auditors.
5. Recommend to the board of directors the selection and compensation and, where applicable, the replacement of the external auditors nominated annually for shareholder approval.
6. At each meeting, consult with the external auditors, without the presence of management, about the quality of the Corporation's accounting principles, internal controls and the completeness and accuracy of the Corporation's financial statements.
7. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
8. Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:
  - (a) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent of the total amount of fees paid by the Corporation to its external auditors during the fiscal year in which the non-audit services are provided;
  - (b) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
  - (c) such services are promptly brought to the attention of the audit committee by the Corporation and approved prior to the completion of the audit by the audit committee or by one or more members of the audit committee who are members of the board of directors to whom authority to grant such approvals has been delegated by the audit committee. Provided the pre-approval of the non-audit services is presented to the audit committee's first scheduled meeting following such approval, such authority may be delegated by the audit committee to one or more independent members of the audit committee.

**Financial Reporting Processes**

1. In consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process, both internal and external.
2. Consider the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
3. Consider and approve, if appropriate, changes to the Corporation's auditing and accounting principles and practices as suggested by the external auditors and management.

4. Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to the appropriateness of such judgments.
5. Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
6. Review any significant disagreement among management and the external auditors in connection with the preparation of the financial statements.
7. Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
8. Review any complaints or concerns about any questionable accounting, internal accounting controls or auditing matters.

## Schedule “B”

### Statement of Corporate Governance Disclosure

The following description of the governance practices of the Corporation is provided in accordance with the guidelines of Multilateral Instrument 58-101, as set out in Form 58-101F2 (the “Form 58-101F2 Guidelines”). The Form 58-101F2 Guidelines address matters relating to constitution and independence of directors, the functions to be performed by the directors of a company and their committees and effectiveness and evaluation of proposed corporate governance guidelines and best practices specified by the Canadian securities regulators. The directors of the Corporation will continue to monitor the developments and the various changes to the proposed corporate governance guidelines and best practices and where applicable will amend its corporate governance guidelines accordingly.

#### Form 58-101F2 Guideline

1. Board of Directors

Disclose how the board of directors facilitates its exercise of independent supervision over management, including

- a. the identity of directors that are independent, and
- b. the identity of directors who are not independent, and the basis for that determination.

#### Response of the Corporation

The board of directors consists of seven directors, of whom John A. Ryan, Edward L. Ellwood, William J. Fisher, Paul V. Teodorovici are independent. None of the unrelated directors has any direct or indirect material relationship with the Corporation (other than shareholdings) which could, in the view of the Corporation’s board of directors, reasonably interfere with the exercise of a director’s independent judgment. Murray R. Nye, Maxwell A. Polinsky and John F. O’Donnell are not independent.

2. Directorships

If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.

#### Response of the Corporation

Murray R. Nye serves as a director of ATSI Communications Inc. and Gold Reef International, Inc.

John A. Ryan serves as a director of Spruce Ridge Resources Ltd., Stellar Pacific Ventures Inc., DXStorm.Com Inc., Golden Dory Resources Corp. and Metalore Resources Limited

John F. O’Donnell serves as a director of Nerium Biotechnology, Inc.

Maxwell A. Polinsky serves as a director of Gold Reef International, Inc., DMI Technology, Inc. and Nerium Biotechnology, Inc.

William J. Fisher serves as a director of Karmin Exploration Inc., PC Gold Inc., Treasury Metals Inc. and Rockwell Diamonds Inc.

3. Orientation and Continuing Education

Describe what steps, if any, the board of directors takes to orient new board members, and describe any measures the board of directors takes to provide continuing education for directors.

Response of the Corporation

Orientation and education of new members of the board of directors is conducted informally by management and members of the board of directors. The orientation provides background information on the Corporation's history, performance and strategic plans.

4. Ethical Business Conduct

Describe what steps, if any, the board of directors takes to encourage and promote a culture of ethical business conduct.

Response of the Corporation

The board of directors has not adopted a formal written code of ethics. The board of directors is of the view that the requirements of the audit committee charter and the ability of the members of the board of directors to reference outside professional advisors, facilitate the Corporation meeting ethical business standards.

5. Nomination of Directors

Disclose what steps, if any, are taken to identify new candidates for the board of directors nomination, including:

- a. who identifies new candidates; and
- b. the process of identifying new candidates.

Response of the Corporation

Given the size of the board of directors and nature of development of the Corporation's business, the board of directors has not appointed a nomination committee or put in place formal procedures for the identification of new board of directors member candidates.

6. Compensation

Disclose what steps, if any, are taken to determine compensation for the directors and Chief Executive Officer, including:

- a. who determines compensation; and
- b. the process of determining compensation.

Response of the Corporation

Members of the board of directors are not compensated for acting as directors, save for being granted incentive stock options pursuant to the Corporation's stock option plan. The board of directors as a whole determines the stock option grants for each director. The independent members of the board of directors review on an ongoing basis, the compensation of the senior officers to ensure that it is competitive.

7. Other Board Committees

If the board of directors has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

Response of the Corporation

The board of directors is satisfied that in view of the size and composition of the board of directors, it is more efficient and cost effective for the full board to perform the duties that would be required by standing committees, other than the audit committee.

8. Assessments

Disclose what steps, if any, that the board of directors takes to satisfy itself that the board of directors, its committees, and its individual directors are performing effectively.

Response of the Corporation

The board of directors considers individual director performance assessments are not warranted, given the Corporation's stage of development, the director's shareholdings and the required time commitment to the affairs of the Corporation.



# **RX Exploration Inc.**

**Consolidated Financial Statements**

**For the Years Ended June 30, 2009 and 2008**

## AUDITORS' REPORT

To the Shareholders of  
**RX Exploration Inc.**

We have audited the consolidated balance sheets of **RX Exploration Inc.** as at **June 30, 2009** and **2008** and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at **June 30, 2009** and **2008** and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*Collins Barrow Toronto LLP*

**Collins Barrow Toronto LLP**  
**Licensed Public Accountants**

September 18, 2009  
Toronto, Ontario

# RX Exploration Inc.

## Consolidated Balance Sheets

As at June 30

	Note	2009	2008
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 12,797	\$ 2,249,713
Due from agents		1,201,610	2,730,000
Prepaid expenses and sundry assets		36,567	21,354
		<b>1,250,974</b>	5,001,067
<b>Mining claims and deferred exploration expenditures</b>	4	<b>10,080,534</b>	3,103,655
<b>Reclamation bond</b>	5	<b>34,263</b>	14,000
		<b>\$11,365,771</b>	\$ 8,118,722

## Liabilities

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 700,241	\$ 759,824
Payable on behalf of joint venture participant	4(iv)	-	397,063
		<b>700,241</b>	1,156,887
<b>Restoration liability</b>	5	<b>34,263</b>	14,000
<b>Future income taxes</b>	11	-	237,600
		<b>734,504</b>	1,408,487

## Shareholders' Equity

<b>Capital stock</b>	6	<b>6,572,952</b>	3,934,990
<b>Contributed surplus</b>	7	<b>993,163</b>	682,802
<b>Share purchase warrants</b>	8	<b>6,574,042</b>	4,879,622
<b>Deficit</b>		<b>(3,508,890)</b>	(2,787,179)
		<b>10,631,267</b>	6,710,235
		<b>\$11,365,771</b>	\$ 8,118,722

*Nature and Continuance of Operations (Note 1)*

*Subsequent Events (Note 16)*

Approved by the Board "Murray R. Nye" Director "John O'Donnell" Director  
(Signed) (Signed)

See accompanying notes.

# RX Exploration Inc.

## Consolidated Statements of Operations and Deficit For the Years Ended June 30

	Note	2009	2008
<b>Expenses</b>			
Office and general		\$ 126,844	\$ 132,763
Professional and consulting fees		351,913	184,347
Stock-based compensation		312,278	676,636
Part XII.6 tax		74,543	100,556
Write-off of deferred exploration expenditures	4(i)	105,000	-
<b>Loss before noted item</b>		<b>970,578</b>	<b>1,094,302</b>
<b>Interest income</b>		<b>(6,917)</b>	<b>(25,518)</b>
<b>Loss before income taxes</b>		<b>(963,661)</b>	<b>(1,068,784)</b>
<b>Future tax recovery</b>	11	<b>(241,950)</b>	<b>(302,090)</b>
<b>Net loss</b>		<b>(721,711)</b>	<b>(766,694)</b>
<b>Deficit at beginning of year</b>		<b>(2,787,179)</b>	<b>(2,020,485)</b>
<b>Deficit at end of year</b>		<b>\$(3,508,890)</b>	<b>\$(2,787,179)</b>
<b>Loss per share</b>			
Basic and diluted		\$ (0.014)	\$ (0.027)
<b>Weighted average number of common shares outstanding</b>			
Basic and diluted		50,550,957	28,682,667

See accompanying notes.

# RX Exploration Inc.

## Consolidated Statements of Cash Flows

### For the Years Ended June 30

	Note	2009	2008
<b>Cash flows from operating activities</b>			
Net loss from operations		\$ (721,711)	\$ (766,694)
Add (deduct) items not affecting cash:			
Future tax recovery	11	(241,950)	(302,090)
Write-off of deferred exploration expenditures	4(i)	105,000	-
Stock-based compensation		312,278	676,636
Changes in non-cash working capital items			
Prepaid expenses and sundry assets		(15,213)	(21,354)
Accounts payable and accrued liabilities		(59,583)	683,307
		<b>(621,179)</b>	<b>269,805</b>
<b>Cash flows from investing activities</b>			
Reclamation bond		(20,263)	(14,000)
Acquisition of mining claims and deferred exploration expenditures		(7,049,779)	(2,627,394)
		<b>(7,070,042)</b>	<b>(2,641,394)</b>
<b>Cash flows from financing activities</b>			
Issuance of capital stock		5,457,791	4,577,455
Re-purchase of capital stock		(3,486)	-
		<b>5,454,305</b>	<b>4,577,455</b>
<b>Increase (decrease) in cash during the year</b>		<b>(2,236,916)</b>	<b>2,205,866</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>2,249,713</b>	<b>43,847</b>
<b>Cash and cash equivalents at end of year</b>		<b>\$ 12,797</b>	<b>\$ 2,249,713</b>

#### Cash and cash equivalents is comprised of:

	2009	2008
Cash	\$ 12,797	\$ 983,339
Guaranteed investment certificates	-	1,266,374
	<b>\$ 12,797</b>	<b>\$ 2,249,713</b>

See accompanying notes.

# **RX Exploration Inc.**

## **Notes to Consolidated Financial Statements**

**June 30, 2009 and 2008**

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### **1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company's principal assets are mining claims and deferred exploration expenditures made with respect to properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves. The amounts shown for mining claims and deferred exploration costs represent costs incurred to date and do not reflect present or future values. The recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and future profitable production. Under the current difficult economic environment, access to the capital markets to obtain equity financing is very uncertain, and indeed may be unavailable to the Company on a timely basis. Subsequent to the year end, the Company raised \$748,000 (Note 16) through the issuance of units and will have to raise additional funds to complete its planned level of exploration on its properties.

### **2. CHANGE IN ACCOUNTING POLICIES**

The Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- (i) Effective July 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 12.
- (ii) Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments Disclosures ("Section 3862") which replaced Section 3861. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 13.
- (iii) Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments Presentation ("Section 3863") which replaced Section 3861. Section 3863 provides standards for presentation of financial instruments and non financial derivatives. Adoption of this standard had no impact on the Company's financial instrument related presentation.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 2. CHANGE IN ACCOUNTING POLICIES

- (iv) Effective July 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.
- (v) Effective July 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective (See Note 3).

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### **Basis of Consolidation and Joint Ventures**

A portion of the Company's exploration activities are conducted jointly with others. Expenditures on properties reflect the Company's proportionate interest in mineral properties. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Drumlummon Gold Mines LLC ("Drumlummon") and its proportionate share of assets and liabilities in its 50% owned joint venture, Maryville Milling and Mining LLC ("Maryville"). Currently, Maryville only owns the Placer Claims (Note 4(iv)) and does not have any other assets, liabilities, commitments or contingencies.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial Instruments

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

#### Financial assets

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

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

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

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

#### Financial liabilities

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

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

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

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

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Company has classified its financial instruments as follows:

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

#### **Stock-Based Compensation and Other Stock-Based Payments**

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

#### **Income Taxes**

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

#### **Income Taxes and Flow Through Shares**

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

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

# RX Exploration Inc.

Notes to Consolidated Financial Statements

June 30, 2009 and 2008

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## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Mining Properties and Deferred Exploration Costs

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

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

#### – Impairment

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

#### – Title

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

### Restoration Liability

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

### Share Issuance Costs

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

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Loss Per Share

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

### Foreign Currency

The Company's wholly-owned subsidiary Drumlummon and its proportionate share in Maryville are treated as integrated foreign operations. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

### Use of Estimates

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

### Recent Accounting Pronouncements Issued and Not Yet Applied

- (a) In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing July 1, 2009. Management has determined that there will be no impact of the standard on its financial statements.
- (b) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

## 4. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

	July 1 2008	Additions	Write-off	June 30 2009
Thunder Bay Claims, ON <sup>(i)</sup>	\$ 105,000	\$ -	\$ 105,000	\$ -
Hard Rock Claims, MT <sup>(ii)</sup>	2,531,388	5,050,691	-	7,582,079
Van Koughnet Township Claims, ON <sup>(iii)</sup>	467,267	1,622,452	-	2,089,719
Placer Claims, MT <sup>(iv)</sup>	-	408,736	-	408,736
	<b>\$3,103,655</b>	<b>\$7,081,879</b>	<b>\$ 105,000</b>	<b>\$10,080,534</b>
	July 1 2007	Additions	Write-off	June 30 2008
Thunder Bay Claims, ON <sup>(i)</sup>	\$ 105,000	\$ -	\$ -	\$ 105,000
Hard Rock Claims, MT <sup>(ii)</sup>	317,261	2,214,127	-	2,531,388
Van Koughnet Township Claims, ON <sup>(iii)</sup>	-	467,267	-	467,267
	<b>\$ 422,261</b>	<b>\$2,681,394</b>	<b>\$ -</b>	<b>\$ 3,103,655</b>

### (i) Thunder Bay Claims - Thunder Bay Mining Division, Ontario

- (1) 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 owned 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.
- (2) Concurrently, the Company acquired an option to earn a 50% interest in eight (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:

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

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 4. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

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

- (c) incur further expenditures of not less than \$200,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the earlier of:
  - (i) the first anniversary of the Formal First Nation Agreement, if and when entered into; and
  - (ii) the second anniversary of the signing of the Agreement;
- (d) on or before the 60<sup>th</sup> day (the "Election Date") after receiving a comprehensive report on the results of the mining operations and after a minimum of \$350,000 in expenditures have been incurred, the Company shall be required to elect in writing whether or not it will proceed to earn its 50% interest in the claims and/or the Zulapa Interest. In the event that the Company exercises its right to proceed to earn its 50% interest in the claims and/or the Zulapa Interest, the Company shall:
  - (i) pay to the Optionor the sum of \$150,000 on or before the 30<sup>th</sup> day following the Election Date; and
  - (ii) incur further expenditures of not less than \$1,150,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the second anniversary of the Election Date;
- (e) in the event that the Company has incurred expenditures of at least \$350,000, but does not elect to earn its 50% interest to the claims and/or the Zulapa Interest (see Note 4(d)), 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% net smelter royalty ("NSR") which the Company can, at any time, repurchase one percent of the NSR for \$1,500,000.

As at June 30, 2009, the Company has paid the \$5,500 due on signing and incurred \$99,500 of exploration expenditures. The expenditures incurred in the prior years related to the mining claims surrounding the First Nations land. 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 is working with the optionor to obtain the required permissions.

Although Management still intends on pursuing these claims, all deferred exploration expenditures have been written off in the current 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.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 4. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

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

On October 30, 2006, the Company entered into an agreement with subsequent amendments with an arm's length party, (the "optionors"), to option from them 100% of their interest in patented mining claims ("Hard Rock Claims") situated in Lewis and Clark County in the State of Montana consisting of 23 claims (3 of the claims consist of less than 100% interest). To earn 100% of the optionor's interest the Company must make further annual payments of \$240,000 on April 13, 2010 and 2011.

The claims are subject to a 2% net smelter royalty.

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

#### Agreement A

On March 7, 2008, the Company entered into an agreement to acquire an undivided 50% working interest in 6 claims located in the Van Koughnet township in the Province of Ontario. To earn its 50% interest in the claims the Company must incur or fund expenditures of \$1,500,000 by the second anniversary of closing and issue 60,000 shares on the exercise date.

After the Company has exercised its option, the parties agree that each party will pay 50% of the cost of further exploration expenditures. There will be a standard dilution clause if either party fails to pay its proportionate share of expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% net smelter return ("NSR").

The Optionor shall be entitled to a royalty interest equal to a 2% NSR. One-half of the NSR may be repurchased for \$600,000 at any time.

#### Agreement B

The Company has entered into two option agreements (the "option") to acquire an undivided 50% working interest in 5 claims located in the Township of Van Koughnet. In order to maintain the option the Company shall incur or fund expenditures totaling \$1,000,000 with respect to any of the claims on or before March 11, 2010 and a further \$500,000 within one year of the completion of the first \$1,000,000. Once the Company has incurred the expenditures with respect to the claim it shall automatically earn a 50% interest. After the Company earns its interest, both parties will contribute equally to fund the exploration. There will be a standard dilution clause if either party fails to pay its proportionate share of expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% NSR.

As at June 30, 2009 the Company has incurred and/or funded approximately \$2,001,300 in exploration expenditures towards the above agreements.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 4. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

### (iv) Placer Claims - Lewis and Clark County, Montana

On April 17, 2008 the Company entered into an agreement to purchase a 100% interest in 12 mining claims in the Lewis and Clark County in the State of Montana for \$625,000 USD and 350,000 common shares.

In exchange for a cash investment of \$3,000,000 made in the prior year, the Company issued 7,500,000 units (Note 6(i)) in the year ended June 30, 2008 and agreed to transfer this property into a newly formed entity ("Marysville Mining and Milling, LLC", "MMM") in which the Company would have a 50% interest and the investor, Spruce Ridge Resources Ltd. ("SRR"), would have the remaining 50% interest. Of the \$3,000,000 financing provided by SRR, \$397,063 represented the amount related to their 50% interest in MMM which was reflected as a liability on the balance sheet for the year ended June 30, 2008. During the current year this liability was applied against current year additions relating to the 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 doesn't participate pro-rata with the other co-owner on any future expenditures.

The vendors retain a 2% Net Smelter royalty on certain claims and a 3% gross royalty on certain claims.

## 5. RECLAMATION BONDS

As at June 30, 2009, management estimated site restoration costs relating to their exploration program on their mining claims in Montana which has been accrued. These costs are estimated by management and approved by the the Montana Department of Environmental Quality ("MDEQ"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds will be refunded to the Company upon the MDEQ being satisfied with the site restoration.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

## 6. CAPITAL STOCK

Authorized  
unlimited common shares

Issued

	Number of Shares	Amount
<b>Balance at June 30, 2007</b>	<b>17,968,115</b>	<b>\$2,086,920</b>
Shares and units issued <sup>(i)</sup>	22,805,333	7,686,000
Allocated to payable on behalf of joint venture participant (Note 4(iv))	-	(397,063)
Shares issued on settlement liabilities <sup>(ii)</sup>	1,815,560	181,556
Shares issued as payment for interest in mineral property <sup>(iii)</sup>	100,000	40,000
Shares issued through exercise of purchase warrants <sup>(iv)</sup>	2,497,500	480,059
Proceeds allocated to warrants <sup>(i)</sup>	-	(4,293,873)
Share issue costs <sup>(i)</sup>	-	(1,848,609)
<b>Balance at June 30, 2008</b>	<b>45,186,508</b>	<b>\$3,934,990</b>
Units issued <sup>(v)</sup>	22,628,500	4,530,700
Shares purchased and cancelled	(17,430)	(1,569)
Shares issued as payment for interest in mineral property <sup>(vi)</sup>	410,000	168,900
Allocated to warrants <sup>(v)</sup>	-	(1,440,295)
Share issue costs <sup>(v)</sup>	-	(619,774)
<b>Balance at June 30, 2009</b>	<b>68,207,578</b>	<b>\$6,572,952</b>

(i) During the prior year the Company raised gross proceeds of \$7,686,000 by issuing shares and units as follows:

- 6,583,333 common shares were issued for gross proceeds of \$825,000;
- 12,500,000 units were issued for gross proceeds of \$5,000,000 of which 5,000,000 units representing \$3,000,000 were issued to SRR (Note 4(iv)). Included in these units were 12,325,000 warrants all exercisable at \$0.40 per share for two years from issuance. The fair value of each warrant 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 is \$4,293,873 (Note 8).
- 3,722,000 flow-through units were issued for gross proceeds of \$1,861,000. Each unit consisted of one flow-through common share and one-half warrant. Each whole warrant entitled the holder to purchase a common share at \$0.40 for a period of two years.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 6. CAPITAL STOCK (Cont'd)

- Share issue costs of \$1,848,609 have been netted against the proceeds. Included in share issue costs is \$539,690 relating to the net future tax cost relating to the issuance of flow-through shares and \$585,749 representing the fair value of 1,938,033 broker warrants issued in connection with the above financings.
- (ii) The Company's legal counsel, a significant shareholder and a director, converted accrued liabilities in the amount of \$181,556 into common shares.
- (iii) The Company issued 100,000 common shares at \$0.40 per common shares as an option payment for the Van Koughnet Township claims.
- (iv) During the prior year, 2,497,500 warrants were exercised into common shares at an exercise price of \$0.15 for gross proceeds of \$374,625. The fair value of these warrants exercised during the year estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model was \$105,434.
- (v) During the year the Company raised gross proceeds of \$4,530,700 by issuing shares and units as follows:
  - 22,578,500 units were issued for gross proceeds of \$4,515,700. Each unit consisted of one common share and one warrant. Included in the units issued was 1,200,000 units issued in consideration of mining services provided by a consultant valued at \$240,000. Each warrant entitles the holder to purchase a common share at prices ranging from \$0.25 to \$0.40 for a period of two years. The fair value of each warrant granted in the year has been estimated at the date of grant using the Black-Scholes option pricing model (Note 8) is \$1,438,295.
  - 50,000 flow-through units were issued for gross proceeds of \$15,000. Each unit consisted of one flow-through common share and one-half warrant. Each whole warrant entitled the holder to purchase a common share at \$0.40 for a period of two years. The fair value of each warrant granted in the year has been estimated at the date of grant using the Black-Scholes option pricing model (Note 8) is \$2,000.
  - Share issue costs of \$619,774 have been netted against the proceeds. Included in share issue costs is \$4,350 relating to the net future tax cost relating to the issuance of flow-through shares and \$254,127 representing the fair value of 1,699,500 broker warrants issued in connection with the above financings.
- (vi) On July 2, 2008, the Company issued 350,000 common shares at \$0.45 per share as an option payment for the Lewis and Clark County Placer Claims.

On March 10, 2009, the Company issued 60,000 common shares as an option payment for the Van Koughnet Silver claims.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 7. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2009	2008
Balance, beginning of year	\$ 682,802	\$ 3,000
Stock-based compensation expense (Note 10)	312,278	676,636
Warrants expired	-	3,166
Premium on repurchase of shares	(1,917)	-
Balance, end of year	\$ 993,163	\$ 682,802

## 8. SHARE PURCHASE WARRANTS

The following summarizes the change in share purchase warrants:

	2009	2008
Balance, beginning of year	\$ 4,879,622	\$ 108,600
Warrants granted (Note 6(v))	1,694,420	4,879,622
Warrants exercised allocated to share capital (Note 6(iv))	-	(105,434)
Warrants expired allocated to contributed surplus (Note 7)	-	(3,166)
Balance, end of year	\$ 6,574,042	\$ 4,879,622

The share purchase warrants consists of regular warrants and broker warrants. The fair value of each warrant granted in the year has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: (i) dividend yield of 0% (2008 - 0%); (ii) expected volatility of 131% (2008 - 137%); (iii) risk-free interest rate of 1.17% (2008 - 3.03%) and; (iv) expected life of 2 years (2008 - 2 years).

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 9. STOCK OPTIONS AND WARRANTS

### (i) 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:

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	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	2,750,000	\$0.39	400,000	\$0.15
Granted	1,950,000	\$0.25	2,350,000	\$0.43
Outstanding at year-end	4,700,000	\$0.33	2,750,000	\$0.39
Exercisable at year-end	4,700,000	\$0.33	2,750,000	\$0.33

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The Company had the following stock options outstanding as of June 30, 2009:

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Number of Options	Exercisable	Exercise Price	Expiry Date
400,000	400,000	\$0.15	November 10, 2011
1,650,000	1,650,000	\$0.32	February 1, 2010
500,000	500,000	\$0.70	May 22, 2010
200,000	200,000	\$0.70	August 22, 2010
1,750,000	1,750,000	\$0.25	January 28, 2012
200,000	200,000	\$0.25	January 28, 2012
<b>4,700,000</b>	<b>4,700,000</b>		

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# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 9. STOCK OPTIONS AND WARRANTS (Cont'd)

### (ii) Warrants

The following summarizes warrant activities:

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	2009		2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	<b>16,299,033</b>	<b>\$0.30</b>	2,572,500	\$0.15
Granted	<b>24,303,000</b>	<b>\$0.37</b>	16,299,033	\$0.30
Exercised	-	\$ -	(2,497,500)	\$0.15
Expired	-	\$ -	(75,000)	\$0.15
Outstanding at year-end	<b>40,602,033</b>	<b>\$0.34</b>	16,299,033	\$0.30

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 9. STOCK OPTIONS AND WARRANTS (Cont'd)

### (ii) Warrants (Cont'd)

The Company had the following warrants outstanding at June 30, 2009:

Number of Warrants	Exercise Price	Expiry Date
333,333 (i)	\$0.15	December 19, 2009
372,200 (i)	\$0.50	December 19, 2009
1,861,000	\$0.75	December 19, 2009
2,850,000	\$0.60	April 3, 2010
285,000 (i)	\$0.40	April 3, 2010
1,325,000	\$0.60	April 10, 2010
132,500 (i)	\$0.40	April 10, 2010
617,000	\$0.60	April 11, 2010
44,200 (i)	\$0.40	April 11, 2010
75,000	\$0.60	April 30, 2010
7,500 (i)	\$0.40	April 30, 2010
133,000	\$0.60	May 5, 2010
13,300 (i)	\$0.40	May 5, 2010
7,500,000	\$0.60	June 30, 2010
750,000 (i)	\$0.40	June 30, 2010
300,000	\$0.25	December 31, 2010
30,000 (i)	\$0.20	December 31, 2010
25,000	\$0.40	December 31, 2010
5,000 (i)	\$0.30	December 31, 2010
2,250,000	\$0.25	January 19, 2011
225,000 (i)	\$0.20	January 19, 2011
350,000	\$0.25	January 19, 2011
50,000	\$0.25	January 29, 2011
5,000 (i)	\$0.20	January 29, 2011
140,000	\$0.25	February 6, 2011
9,865,000 (ii)	\$0.40	March 2, 2011
986,500 (i)	\$0.20	March 2, 2011
1,225,000 (ii)	\$0.40	April 24, 2011
122,500 (i)	\$0.20	April 24, 2011
5,118,500 (ii)	\$0.40	June 25, 2011
25,000	\$0.40	June 30, 2011
3,255,000 (ii)	\$0.40	June 30, 2011
325,500 (i)	\$0.20	June 30, 2011
<hr/>		
40,602,033		

(i) These are broker warrants in connection with the Company's financings disclosed in Note 6(i) and (vi).

(ii) The expiry date shall be accelerated to 30 days from the 10th consecutive trading day on which the common shares close at or above \$0.30.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 10. STOCK-BASED COMPENSATION

The total stock based compensation relating to options issued pursuant to the stock option plan disclosed in Note 9(i), recognized during the year was \$312,278 (2008 - \$676,636).

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 weighted average fair value of the options granted during the year was estimated at \$0.14 (2008 – \$0.40) using the Black-Scholes option pricing model with the following weighted average assumptions: (i) expected dividend yield of 0% (2008 – 0%); (ii) expected volatility of 129% (2008 – 144%); (iii) risk free interest rate of 1.39% (2008 – 3.09%) and; (iv) expected life of 3 years (2008 – 2 years).

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

## 11. INCOME TAXES

### (i) Income Tax Expense

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

	2009	2008
Earnings (loss) before income taxes	\$ (963,661)	\$ 1,068,784
Statutory rate	33.3 %	33.5 %
Expected income tax recovery	\$ (320,899)	\$ (358,043)
Expired losses	46,400	-
Change in tax rates and other	41,400	(143,057)
Share issue costs	(179,700)	(209,700)
Change in valuation allowance	114,890	182,010
Non-deductible expenses and other	55,959	226,700
Income tax expense (recovery)	\$ (241,950)	\$ (302,090)

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 11. INCOME TAXES (Cont'd)

### (ii) Future Income Taxes

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

	2009	2008
<b>Future tax assets</b>		
Amounts related to tax loss and credit carryforwards	\$ 769,650	\$ 309,180
Capital losses	145,380	207,640
Share issuance costs	271,850	171,120
	<b>1,186,880</b>	687,940
<b>Future tax liabilities</b>		
Mineral properties	(778,190)	(631,740)
	<b>408,690</b>	56,200
<b>Net future tax asset</b>		
Less: Valuation allowance	(408,690)	(293,800)
	<b>\$ -</b>	<b>\$ (237,600)</b>

(iii) The Company has non-capital losses of approximately \$2,662,030 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2010	54,700
2011	\$ 48,300
2015	27,200
2026	149,500
2027	79,000
2028	540,630
2029	1,762,700
	<b>\$ 2,662,030</b>

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

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 12. CAPITAL RISK MANAGEMENT

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

The Company includes equity, comprised of issued capital stock, share purchase warrants, contributed surplus and deficit, in the definition of capital.

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 is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the twelve months ended June 30, 2009.

## 13. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), 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 under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

### (a) Market risk:

#### (i) Currency risk:

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

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

As at June 30, 2009 the Company held \$4,292 of cash in US dollars.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
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## 13. FINANCIAL RISK MANAGEMENT (Cont'd)

### (a) Market risk: (Cont'd)

#### (ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations as interest income is a nominal amount for the twelve months ended June 30, 2009.

### (b) Fair value risk:

The carrying values of cash and cash equivalents, due from agent, accounts payable and accrued liabilities approximate fair values due to the relatively short term maturities of these instruments.

### (c) Credit risk:

The Company is exposed to credit risk with respect to its cash and cash equivalents, however this is minimized as cash and cash equivalents are placed with major Canadian financial institutions. The amount due from agent was received subsequent to the year end.

### (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 its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at June 30, 2009, the Company has current liabilities of \$700,241 due within 12 months and has cash and cash equivalents and receivable from agent of \$1,214,407 to meet its current obligations. As at June 30, 2009 the Company has a working capital surplus of \$550,733. Management will continue to raise capital to fund the Company's exploration, development and feasibility expenditures and for general and administrative costs.

# RX Exploration Inc.

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

Included in accounts payable and accrued liabilities is \$74,252 (2008 - \$181,790) due to the Company's legal counsel who is a director of the Company, \$40,000 (2008 - \$50,000) due to a company controlled by significant shareholders and \$12,500 (2008 - Nil) due to a company controlled by a director of the Company.

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

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

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

## 15. CONTINGENCY

Pursuant to the flow through share issuance (Note 6(i)) in the prior year the Company renounced to its investors certain expenditures in accordance with the look-back rules under the Income Tax Act ("the Act"). As a result, the Company was committed to incurring approximately \$1,861,000 of Canadian Exploration Expenditures prior to December 31, 2008. The Company did not incur the required amount of Canadian Exploration Expenditures by December 31, 2008 and as a result has incurred a Part XII.6 tax in the approximate amount of \$75,000. In addition the qualification of the eligibility of the Canadian Exploration Expenditures, including amounts funded to and then expended by the optionors of the Van Koughnet Townships claims (Note 4(iii)), which were renounced in relation to the flow through share issuance at (Note 6(i)) are in the normal course of business subject to review by the Canada Revenue Agency ("CRA"). If these expenditures were denied by the CRA under review the Company would incur penalties and would be required to amend certain of its tax filings with its flow through share investors.

# RX Exploration Inc.

Notes to Consolidated Financial Statements  
June 30, 2009 and 2008

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## 16. SUBSEQUENT EVENTS

- (i) On July 8, 2009, 2,100,000 Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).
- (ii) On July 8, 2009, a total of 1,815,000 non-brokered Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).

# **RX Exploration Inc.**

## **Consolidated Interim Financial Statements**

**September 30, 2009**  
(unaudited)

### **Notice to Reader**

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

# RX Exploration Inc.

## Consolidated Balance Sheets

As at September 30, 2009

	Note	September 30, 2009	June 30, 2009 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 1,220,226	\$ 12,797
Due from agent		-	1,201,610
Prepaid expenses and sundry assets		41,582	36,567
		<b>1,261,808</b>	1,250,974
Mining claims and deferred exploration expenditures	3	10,612,941	10,080,534
Reclamation bond	4	37,806	34,263
		<b>\$11,912,555</b>	\$11,365,771

## Liabilities

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 601,893	\$ 700,241
		<b>601,893</b>	700,241
Restoration liability		34,263	34,263
		<b>636,156</b>	734,504

## Shareholders' Equity

Capital stock	5	7,130,898	6,572,952
Contributed surplus		1,441,171	993,163
Share purchase warrants		6,906,141	6,574,042
Deficit		(4,201,811)	(3,508,890)
		<b>11,276,399</b>	10,631,267
		<b>\$11,912,555</b>	\$11,365,771

*Nature of Operations and Going Concern (Note 1)*

Approved by the Board "Murray R. Nye" Director "John A. Ryan" Director  
(Signed) (Signed)

See accompanying notes.

# RX Exploration Inc.

## Consolidated Statements of Operations and Deficit

September 30, 2009 and 2008

	Three Months Ended September 30,	
	2009	2008
<b>Expenses</b>		
Office and general	\$ 102,490	\$ 40,166
Professional fees	88,429	59,090
Stock-based compensation	502,000	-
<b>Loss before undernoted item</b>	<b>(692,919)</b>	<b>(99,256)</b>
<b>Interest income</b>	<b>-</b>	<b>6,917</b>
<b>Loss before income taxes</b>	<b>(692,919)</b>	<b>(92,339)</b>
<b>Future tax recovery</b>	<b>-</b>	<b>(28,000)</b>
<b>Net loss</b>	<b>(692,919)</b>	<b>(64,339)</b>
<b>Deficit at beginning of period</b>	<b>(3,508,892)</b>	<b>(2,787,179)</b>
<b>Deficit at end of period</b>	<b>\$(4,201,811)</b>	<b>\$(2,851,518)</b>
<b>Loss per share</b>		
Basic and diluted	\$ (0.010)	\$ (0.001)
<b>Weighted average number of common shares outstanding</b>		
Basic and diluted	72,050,785	45,532,704

See accompanying notes.

# RX Exploration Inc.

## Consolidated Statements of Cash Flows

September 30, 2009 and 2008

	Three Months Ended September 30,	
	2009	2008
<b>Cash flows from operating activities</b>		
Loss from operations	\$ (692,919)	\$ (64,339)
Add (deduct) items not affecting cash:		
Future tax recovery	-	(28,000)
Stock-based compensation	502,000	-
Changes in non-cash working capital item		
Prepaid expenses and sundry assets	(5,015)	(89,922)
Accounts payable and accrued liabilities	(98,348)	(371,533)
Reclamation bond	\$ (3,543)	\$ -
	<b>(297,825)</b>	<b>(553,794)</b>
<b>Cash flows from investing activity</b>		
Acquisition of mining claims and deferred exploration expenditures	(532,407)	(2,843,058)
<b>Cash flows from financing activity</b>		
Issuance of capital stock	736,051	-
Shares issued on exercise of stock options	100,000	-
Subscriptions received from agent	1,201,610	2,730,000
	<b>2,037,661</b>	<b>2,730,000</b>
<b>Increase (decrease) in cash during the period</b>	<b>1,207,429</b>	<b>(666,852)</b>
<b>Cash at beginning of period</b>	<b>12,797</b>	<b>2,249,713</b>
<b>Cash at end of period</b>	<b>\$ 1,220,226</b>	<b>\$ 1,582,861</b>

See accompanying notes.

# **RX Exploration Inc.**

## **Notes to Consolidated Financial Statements**

September 30, 2009 and 2008

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

The continuing operations of the Company and the recoverability of the carrying value of the mining claims and the related deferred exploration expenditures are dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties. Realized amounts for the Company's mining properties may vary materially from book amounts.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles using accounting policies consistent with the Company's audited annual financial statements and notes thereto for the year ended June 30, 2009.

#### **Recent Accounting Pronouncements Issued and Not Yet Applied**

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

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

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

### 3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

	July 1 2009	Additions	Write-off	Sept. 30 2009
Thunder Bay Claims, ON <sup>(i)</sup>	\$ -	\$ -	\$ -	\$ -
Hard Rock Claims, MT <sup>(ii)</sup>	7,582,079	532,407	-	8,114,486
Van Koughnet Township Claims, ON <sup>(iii)</sup>	2,089,719	-	-	2,089,719
Placer Claims, MT <sup>(iv)</sup>	408,736	-	-	408,736
	<b>\$10,080,534</b>	<b>\$ 532,407</b>	<b>\$ -</b>	<b>\$10,612,941</b>

#### (i) Thunder Bay Claims - Thunder Bay Mining Division, Ontario

- (1) 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 owned 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.
- (2) Concurrently, the Company acquired an option to earn a 50% interest in eight (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:

- (a) pay \$5,500 to the Optionor upon signing of the option agreement (the "Agreement"), which was paid in the year ended June 30, 2006;
- (b) incur expenditures of not less than \$150,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the first anniversary of the signing of the Agreement, of which sufficient expenditures must be recorded against the claims in each year to meet assessment requirements required to keep them in good standing;
- (c) incur further expenditures of not less than \$200,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the earlier of:
  - (i) the first anniversary of the Formal First Nation Agreement, if and when entered into; and
  - (ii) the second anniversary of the signing of the Agreement;

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

- (d) on or before the 60th day (the "Election Date") after receiving a comprehensive report on the results of the mining operations and after a minimum of \$350,000 in expenditures have been incurred, the Company shall be required to elect in writing whether or not it will proceed to earn its 50% interest in the claims and/or the Zulapa Interest. In the event that the Company exercises its right to proceed to earn its 50% interest in the claims and/or the Zulapa Interest, the Company shall:
  - (i) pay to the Optionor the sum of \$150,000 on or before the 30th day following the Election Date; and
  - (ii) incur further expenditures of not less than \$1,150,000 in mining operations with respect to any of the claims or the Zulapa Interest (if and when available), on or before the second anniversary of the Election Date;
- (e) in the event that the Company has incurred expenditures of at least \$350,000, but does not elect to earn its 50% interest to the claims and/or the Zulapa Interest (see Note 4(d)), 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% net smelter royalty ("NSR") which the Company can, at any time, repurchase one percent of the NSR for \$1,500,000.

As at June 30, 2009, the Company has paid the \$5,500 due on signing and incurred \$99,500 of exploration expenditures. The expenditures incurred in the prior years related to the mining claims surrounding the First Nations land. 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 is working with the optionor to obtain the required permissions.

Although Management still intends on pursuing these claims, all deferred exploration expenditures were written off in the previous 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.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)

#### (ii) Hard Rock Claims - Lewis and Clark county, Montana

On October 30, 2006, the Company entered into an agreement with subsequent amendments with an arm's length party, (the "optionors"), to option from them 100% of their interest in patented mining claims ("Hard Rock Claims") situated in Lewis and Clark County in the State of Montana consisting of 23 claims (3 of the claims consist of less than 100% interest). To earn 100% of the optionor's interest the Company must make further annual payments of \$240,000 on April 13, 2010 and 2011.

The claims are subject to a 2% net smelter royalty.

#### (iii) Van Koughnet Township Sault Ste. Marie Mining Division, Ontario

##### Agreement A

On March 7, 2008, the Company entered into an agreement to acquire an undivided 50% working interest in 6 claims located in the Van Koughnet township in the Province of Ontario. To earn its 50% interest in the claims the Company must incur or fund expenditures of \$1,500,000 by the second anniversary of closing and issue 60,000 shares on the exercise date.

After the Company has exercised its option, the parties agree that each party will pay 50% of the cost of further exploration expenditures. There will be a standard dilution clause if either party fails to pay its proportionate share of expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% net smelter return ("NSR").

The Optionor shall be entitled to a royalty interest equal to a 2% NSR. One half of the NSR may be repurchased for \$600,000 at any time.

##### Agreement B

The Company has entered into two option agreements (the "option") to acquire an undivided 50% working interest in 5 claims located in the Township of Van Koughnet. In order to maintain the option the Company shall incur or fund expenditures totaling \$1,000,000 with respect to any of the claims on or before March 11, 2010 and a further \$500,000 within one year of the completion of the first \$1,000,000. Once the Company has incurred the expenditures with respect to the claim it shall automatically earn a 50% interest. After the Company earns its interest, both parties will contribute equally to fund the exploration. There will be a standard dilution clause if either party fails to pay its proportionate share of expenditures. If either party is diluted to less than 10%, its interest will be converted to a 1% NSR.

As at September 30, 2009 the Company has incurred and/or funded approximately \$2,001,300 in exploration expenditures towards the above agreements.

# **RX Exploration Inc.**

## **Notes to Consolidated Financial Statements**

September 30, 2009 and 2008

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### **3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Cont'd)**

#### **(iv) Placer Claims - Lewis and Clark county, Montana**

On April 17, 2008 the Company entered into an agreement to purchase a 100% interest in 12 mining claims in the Lewis and Clark County in the State of Montana for \$625,000 USD and 350,000 common shares.

In exchange for a cash investment of \$3,000,000 made in the prior year, the Company issued 7,500,000 units (Note 6(i)) in the year ended June 30, 2008 and agreed to transfer this property into a newly formed entity ("Marysville Mining and Milling, LLC", "MMM") in which the Company would have a 50% interest and the investor, Spruce Ridge Resources Ltd. ("SRR"), would have the remaining 50% interest. Of the \$3,000,000 financing provided by SRR, \$397,063 represented the amount related to their 50% interest in MMM which was reflected as a liability on the balance sheet for the year ended June 30, 2008. During the year ended June 30, 2009, this liability was applied against that year's additions relating to the 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 doesn't participate pro rata with the other co owner on any future expenditures.

The vendors retain a 2% Net Smelter royalty on certain claims and a 3% gross royalty on certain claims.

### **4. RECLAMATION BONDS**

As at September 30, 2009, management estimated site restoration costs relating to their exploration program on their mining claims in Montana which has been accrued. These costs are estimated by management and approved by the Montana Department of Environmental Quality ("MDEQ"). The Company is required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds will be refunded to the Company upon the MDEQ being satisfied with the site restoration.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

### 5. CAPITAL STOCK

Authorized  
unlimited common shares

Issued

	Number of Shares	Amount
<b>Balance at June 30, 2009</b>	<b>68,207,578</b>	<b>\$6,572,952</b>
Units issued <sup>(i)</sup>	3,915,000	783,000
Options exercised <sup>(ii)</sup>	400,000	153,992
Allocated to warrants <sup>(i)</sup>	-	(292,700)
Share issue costs <sup>(i)</sup>	-	(86,346)
<b>Balance at September 30, 2009</b>	<b>72,522,578</b>	<b>\$7,130,898</b>

- (i) On July 8, 2009 the Company raised gross proceeds of \$783,000 by issuing 3,915,000 units. Each Unit consisted of one common share and one share purchase warrant. Each warrant entitled the holder to purchase a common share at \$0.40 for a period of 2 years (the expiry date shall be accelerated to 30 days from the tenth consecutive trading day on which the common shares of the Company close at or above \$0.60)

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

Share issue costs of \$86,352 have been netted against the proceeds. Included in share issue costs is \$39,399 representing the fair value of 210,000 broker warrants issued in connection with the above financing.

- (ii) On September 23, 2009, 400,000 stock options were exercised at \$0.25.
- (iii) 100,000 stock options to C. Connor lapsed in July, 2009.

### 6. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	September 30 2009	June 30 2009
Balance, beginning of year	\$ 993,163	\$ 682,802
Stock-based compensation expense (Note 8)	502,000	312,278
Options exercised	(53,992)	-
Premium on repurchase of shares	-	(1,917)
<b>Balance, as at September 30, 2009</b>	<b>1,441,171</b>	<b>\$ 993,163</b>

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 7. STOCK OPTIONS AND WARRANTS

#### (i) Stock Options

The Company had the following stock options outstanding as of September 30, 2009:

<b>Number of Options</b>	<b>Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
400,000	400,000	\$0.15	November 10, 2011
50,000	50,000	\$0.32	January 29, 2010
400,000	400,000	\$0.70	May 22, 2010
200,000	200,000	\$0.70	August 22, 2010
1,350,000	1,350,000	\$0.25	January 28, 2012
200,000	200,000	\$0.25	February 4, 2012
3,050,000	3,050,000	\$0.32	January 29, 2013
<b>5,650,000</b>	<b>5,650,000</b>		

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 7. STOCK OPTIONS AND WARRANTS (Cont'd)

#### (ii) Warrants

The Company had the following warrants outstanding at September 30, 2009:

Number of Warrants	Exercise Price	Expiry Date
333,333 (i)	\$0.15	December 19, 2009
372,200 (i)	\$0.50	December 19, 2009
1,861,000	\$0.75	December 19, 2009
2,850,000	\$0.60	April 3, 2010
285,000 (i)	\$0.40	April 3, 2010
1,325,000	\$0.60	April 10, 2010
132,500 (i)	\$0.40	April 10, 2010
617,000	\$0.60	April 11, 2010
44,200 (i)	\$0.40	April 11, 2010
75,000	\$0.60	April 30, 2010
7,500 (i)	\$0.40	April 30, 2010
133,000	\$0.60	May 5, 2010
13,300 (i)	\$0.40	May 5, 2010
7,500,000	\$0.60	June 30, 2010
750,000 (i)	\$0.40	June 30, 2010
300,000	\$0.25	December 31, 2010
30,000 (i)	\$0.20	December 31, 2010
25,000	\$0.40	December 31, 2010
5,000 (i)	\$0.30	December 31, 2010
2,250,000	\$0.25	January 19, 2011
225,000 (i)	\$0.20	January 19, 2011
350,000	\$0.25	January 19, 2011
50,000	\$0.25	January 29, 2011
5,000 (i)	\$0.20	January 29, 2011
140,000	\$0.25	February 6, 2011
9,865,000 (ii)	\$0.40	March 2, 2011
986,500 (i)	\$0.20	March 2, 2011
1,225,000 (ii)	\$0.40	April 24, 2011
122,500 (i)	\$0.20	April 24, 2011
5,118,500 (ii)	\$0.40	June 25, 2011
25,000	\$0.40	June 30, 2011
3,255,000 (ii)	\$0.40	June 30, 2011
325,500 (i)	\$0.20	June 30, 2011
2,100,000 (ii)	\$0.40	July 8, 2011
1,815,000 (ii)	\$0.40	July 8, 2011
210,000 (i)	\$0.20	July 8, 2011
<hr/>		
44,727,033		

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

(ii) The expiry date shall be accelerated to 30 days from the 10th consecutive trading day on which the common shares close at or above \$0.60.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 8. STOCK-BASED COMPENSATION

The total stock based compensation relating to options issued pursuant to the stock option plan recognized during the period ended September 30, 2009 year was \$502,000.

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 weighted average fair value of the options granted during the year was estimated at \$0.17 using the Black-Scholes option pricing model with the following weighted average assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 126%; (iii) risk free interest rate of 2.3% and; (iv) expected life of 3 years.

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

# **RX Exploration Inc.**

## **Notes to Consolidated Financial Statements**

September 30, 2009 and 2008

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### **9. CAPITAL RISK MANAGEMENT**

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

The Company includes equity, comprised of issued capital stock, share purchase warrants, contributed surplus and deficit, in the definition of capital.

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 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, 2009.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 10. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk and interest rate risk), 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 under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

#### (a) Market risk:

##### (i) Currency risk:

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

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

As at September 30, 2009 the Company held \$26,334 of cash in US dollars.

##### (ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day to day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations as interest income is a nominal amount for the three months ended September 30, 2009.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 10. FINANCIAL RISK MANAGEMENT (Cont'd)

#### (b) 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 its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at September 30, 2009, the Company has current liabilities of \$601,893 due within 12 months and has cash and cash equivalents of \$1,261,808 to meet its current obligations. As at September 30, 2009 the Company has a working capital surplus of \$659,915. Management will continue to raise capital to fund the Company's exploration, development and feasibility expenditures and for general and administrative costs.

### 11. 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 mining claims and deferred exploration expenditures are \$NIL (2008 - \$19,950) of fees paid to the Company's legal counsel who is a director of the Company

Included in accounts payable and accrued liabilities is \$85,896 (2008 - \$48,729) due to the Company's legal counsel who is a director of the Company, \$20,000 (2008 - \$NIL) due to a company controlled by significant shareholders.

Included in capital stock is \$9,153 (2008 - \$NIL) of share issuance costs for fees paid to the Company's legal counsel who is a director of the Company.

Included in professional and consulting fees are \$4,522 (2008 - \$26,157) of fees paid to the Company's legal counsel who is a director of the Company and \$60,000 (2008 - \$NIL) in management fees to a company controlled by significant shareholders.

Included in office and general are \$15,466 (2008 - \$7,419) in payments to a company controlled by a significant shareholder, related to rent and reimbursements and \$1,500 (2008 - \$NIL) to a company controlled by a director of the Company.

# RX Exploration Inc.

## Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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### 12 CONTINGENCY

Pursuant to the flow through share issuance in a prior year the Company renounced to its investors certain expenditures in accordance with the look back rules under the Income Tax Act ("the Act"). As a result, the Company was committed to incurring approximately \$1,861,000 of Canadian Exploration Expenditures prior to December 31, 2008. The Company did not incur the required amount of Canadian Exploration Expenditures by December 31, 2008 and, as a result, has incurred a Part XII.6 tax in the approximate amount of \$75,000. In addition the qualification of the eligibility of the Canadian Exploration Expenditures, including amounts funded to and then expended by the optionors of the Van Koughnet Townships claims (Note 3(iii)), which were renounced in relation to the flow through share issuance are in the normal course of business subject to review by the Canada Revenue Agency ("CRA"). If these expenditures were denied by the CRA under review the Company would incur penalties and would be required to amend certain of its tax filings with its flow through share investors.

### 13. SUBSEQUENT EVENTS

- (i) On October 6, 2009, a total of 750,000 non-brokered Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60). The proceeds were received on August 4, 2009; therefore, the four-month hold period runs from the date when funds were received.
- (ii) On October 29, 2009, a total of 5,027,000 Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).
- (iii) On November 4, 2009, a total of 750,000 non brokered Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).
- (iv) On November 5, 2009, a total of 2,477,000 Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).
- (v) On November 6, 2009, a total of 1,255,000 Units were issued at a price of \$0.20 per Unit. Each Unit consisted of one common share and one share purchase warrant, each warrant entitling the holder to acquire one further common share for 2 years at a price of \$0.40 per common share (the expiry date shall be accelerated to thirty days from the tenth consecutive trading day on which the common shares of RX close at or above \$0.60).