

RX Exploration Inc.
(A Development Stage Company)

Consolidated Financial Statements

For the Years Ended June 30, 2010 and 2009

AUDITORS' REPORT

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

We have audited the consolidated balance sheets of RX Exploration Inc. (A Development Stage Company) as at June 30, 2010 and 2009 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
September 24, 2010
(except for Note 21(c) which is dated October 19, 2010)
Toronto, Ontario

RX Exploration Inc.
(A Development Stage Company)
Consolidated Statements of Operations and Deficit
Years Ended June 30, 2010 and 2009

	2010	2009
Expenses		
Office and general (Note 19)	\$ 430,324	\$ 127,900
Professional and consulting fees (Note 19)	754,929	350,857
Stock-based compensation (Note 15)	1,288,548	312,278
Part XII.6 tax (Note 20)	-	74,543
Write-off of deferred exploration and development expenditures (Note 8(b))	2,106,208	105,000
Delayed listing penalty (Note 10(f))	160,650	-
Loss before the undernoted item and income taxes	(4,740,659)	(970,578)
Interest income	1,767	6,917
Loss before income taxes	(4,738,892)	(963,661)
Future tax recovery (Note 16)	-	(241,950)
Net loss	(4,738,892)	(721,711)
Deficit, beginning of year	(3,508,890)	(2,787,179)
Modification of share purchase warrants (Note 12(i))	(1,818,950)	-
Deficit, end of year	\$(10,066,732)	\$ (3,508,890)
Loss per share		
Basic and diluted	\$ (0.055)	\$ (0.014)
Weighted average number of common shares outstanding		
Basic and diluted	85,468,474	50,550,957

RX Exploration Inc.
(A Development Stage Company)
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash provided by (used in)		
Operations		
Net loss	\$ (4,738,892)	\$ (721,711)
Items not affecting cash		
Future tax recovery (Note 16)	-	(241,950)
Write-off of deferred exploration and development expenditures (Note 8(b))	2,106,208	105,000
Stock-based compensation (Note 15)	1,288,548	312,278
Delayed listing penalty (Note 10(f))	160,650	-
	(1,183,486)	(546,383)
Net changes in non-cash operating working capital items		
Amounts receivable	(359,950)	-
Prepaid expenses and sundry assets	(252,726)	(15,213)
Reclamation bonds	18,310	(20,263)
Accounts payable and accrued liabilities	482,510	(59,583)
	(1,295,342)	(641,442)
Investing		
Acquisition of short-term investment	(3,000,000)	-
Acquisition of plant and equipment	(731,768)	-
Acquisition of mining claims and deferred exploration and development expenditures	(5,938,095)	(7,049,779)
	(9,669,863)	(7,049,779)
Financing		
Issuance of capital stock (net of issuance costs) (Note 10)	12,650,074	5,457,791
Repurchase of capital stock	-	(3,486)
	12,650,074	5,454,305
Net change in cash	1,684,869	(2,236,916)
Cash, beginning of year	12,797	2,249,713
Cash, end of year	\$ 1,697,666	\$ 12,797

1. NATURE OF OPERATIONS

RX Exploration Inc. was incorporated November 13, 1981 under the Canada Business Corporations Act.

The Company's principal assets are mining claims and deferred exploration and development 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 and development expenditures 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.

In May 2010, the Company began extracting gold and silver bearing rock from its Hard Rock mining claims in Marysville, Montana and earned revenue of approximately \$368,000 (\$351,000USD) net of smelting and refining charges in the year-ending June 30, 2010. This revenue was earned as a result of the Company's test mining process. Test mining is a phase of the exploration and development of a mine whereby a Company is determining the quality of ore and the economic viability of extraction of that ore. Accordingly the earning of this revenue has not resulted in the Company being considered to be in production and therefore the Company remains in the development stage at year end.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective July 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accounts ("CICA") standards:

CICA Handbook Section 3064 - Goodwill and Intangible Assets ("CICA 3064")

CICA 3064, replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and CICA Handbook Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

CICA Handbook Section 3862 - Financial Instruments – Disclosures ("CICA 3862")

CICA 3862, was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The adoption of these standards had no impact on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The consolidated financial statements include the accounts of RX Exploration Inc. and its wholly-owned subsidiaries, Drumlummon Gold Mine LLC, Drumlummon Gold Corp., Drumlummon Ltd., and RX Mining Corp (the "Company").

A portion of the Company's exploration activities are conducted jointly with others. Expenditures on properties reflect the Company's proportionate interest in mineral properties. The consolidated financial statements include the Company's proportionate share of assets and liabilities in its 50% owned joint venture, Marysville Milling and Mining LLC ("MMM"). Currently, MMM only owns the Placer Claims (Note 8(c)) and does not have any other assets, liabilities, commitments or contingencies.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Areas requiring significant estimates by management are valuation of options and warrants, economic useful life of depreciable assets for purposes of calculating amortization, impairment and valuation of mining claims and deferred exploration and development expenditures and valuation allowance for future income taxes. Actual results could differ from those estimates, and the difference could be material.

Stock-Based Compensation and Other Stock-Based Payments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining Claims and Deferred Exploration and Development Expenditures

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

Revenue from properties earned during the development stage (prior to commercial production) are deducted from capitalized costs.

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.

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

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

Plant and Equipment

Plant and equipment are stated at cost, less accumulated amortization. Amortization is recorded using the units-of-production method over the established life of the proven and probable reserves of the related mining claims and deferred exploration and development expenditures.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Restoration Liabilities

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

Income Taxes

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

Flow-Through Shares

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

Issuance Costs

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

Loss Per Share

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

Valuation of Equity Instruments in Private Placements

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation

The Company's wholly-owned subsidiaries, Drumlummon Gold Mines LLC, Drumlummon Gold Corp., Drumlummon Ltd., and RX Mining Corp., are treated as integrated foreign operations. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

Financial Instruments

The Company follows the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and measurement. Section 3855 provides that all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

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

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

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

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

Financial liabilities

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

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

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Short-term investment	Held for trading
Amounts receivable	Loans and receivables
Due from agents	Loans and receivables
Loan receivable	Loans and receivables
Reclamation bonds	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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

4. RECENT ACCOUNTING PRONOUNCEMENT ISSUED AND NOT YET APPLIED

International financial reporting standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own Generally Accepted Accounting Principals. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

5. SHORT-TERM INVESTMENT

The short-term investment consists of a cashable Guaranteed Investment Certificate with a Canadian Chartered Bank bearing interest at 0.5% per annum and is redeemable by May 19, 2011.

6. DUE FROM AGENTS

Due from agents relates to proceeds receivable from units issued or amounts due from brokers for warrants exercised. All amounts were received subsequent to year end.

RX Exploration Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements
June 30, 2010 and 2009

7. PLANT AND EQUIPMENT

June 30, 2010

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

8. MINING CLAIMS AND DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES

June 30, 2010

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

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

June 30, 2009

	2008	Additions	Write-offs	2009
Thunder Bay Claims, ON ^(e)	\$ 105,000	\$ -	\$ 105,000	\$ -
Hard Rock Claims, MT ^(a)	2,531,388	5,050,691	-	7,582,079
Van Koughnet Township Claims, ON ^(b)	467,267	1,622,452	-	2,089,719
Placer Claims, MT ^(c)	-	408,736	-	408,736
	\$ 3,103,655	\$ 7,081,879	\$ 105,000	\$10,080,534

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

(a) 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 28 claims (3 of the claims consist of less than 100% interest). To earn 100% of the optionor's interest the Company must make a final payment of \$240,000 USD on or before April 13, 2011 (\$960,000 USD paid as of June 30, 2010).

The claims are subject to a 2% net smelter royalty ("NSR").

The Company has 100% interest in 112 unpatented Hard Rock claims.

Netted in the current year additions total is revenue of \$367,974 (\$350,682 USD) earned from the sale of gold and silver bearing rock.

Precious metal inventory at year-end included in the ending balance is approximately \$212,000.

(b) 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% 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.

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

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

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 Van Koughnet Township. 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 and development expenditures towards the above agreements.

There was a dispute between the Company and the optionors regarding the above agreements. The dispute was over administrative matters regarding the funding of the exploration work. A satisfactory resolution was not achieved during the year and as a result, management is assessing its options at this time. Given the uncertainty of the recoverability of the deferred exploration and development expenditures, a full impairment write down has been taken. Arbitration proceedings have been commenced with the optionor in regard to this matter.

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

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

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

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

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

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

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

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

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

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

- First year anniversary \$55,000 USD
- Second year anniversary \$75,000 USD
- Third year anniversary \$100,000 USD
- Fourth year anniversary \$100,000 USD
- Fifth and each subsequent annual anniversary \$150,000 USD

In addition to the above payments the Company is to issue 200,000 common shares to the optionors by October 19, 2010.

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

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

- (i) On October 21, 2005, the Company acquired from Wabassi River Resources Inc. (the "Optionor") an option to earn a 50% interest in the Zulapa Interest ("Zulapa"). This claim is on land 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.
- (ii) Concurrently, the Company acquired an option to earn a 50% interest in 8 unpatented mining claims which are adjacent to the Zulapa claim, (totaling 108 claim units) from the Optionor in the Thunder Bay Mining Division in the Province of Ontario.

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

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

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

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

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

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

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 was working with the Optionor to obtain the required permissions.

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

RX Exploration Inc.
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Notes to Consolidated Financial Statements
June 30, 2010 and 2009

9. RECLAMATION BONDS

As at June 30, 2010, management estimated and accrued site restoration costs relating to their exploration programs for their mining claims in Montana. These costs are estimated by management and approved by the the Montana Department of Environmental Quality ("MDEQ"). The Company is required to issue reclamation bonds with the MDEQ to cover the estimated site restoration costs. The reclamation bonds will be refunded to the Company once the MDEQ is satisfied with the site restoration work performed. The reclamation bonds equal the restoration liability as the bonds approximate the total cost to be incurred by the Company relating to site restoration work.

10. CAPITAL STOCK

Authorized
unlimited common shares

Issued

	Number of Shares	Amount
Balance at June 30, 2008	45,186,508	\$ 3,934,990
Units issued ^(a)	22,628,500	4,530,700
Shares purchased and cancelled	(17,430)	(1,569)
Shares issued as payment for interest in mineral property ^(b)	410,000	168,900
Allocated to warrants ^(a)	-	(1,440,295)
Share issue costs ^(a)	-	(619,774)
Balance at June 30, 2009	68,207,578	\$ 6,572,952
Units issued ^(c)	38,130,770	11,021,831
Delayed listing penalty shares issued ^(f)	535,500	160,650
Options exercised ^(d)	1,400,000	728,372
Warrants exercised ^(e)	2,742,483	1,361,209
Allocated to warrants ^(c)	-	(3,181,112)
Share issue costs ^(c)	-	(1,322,094)
Balance at June 30, 2010	111,016,331	\$ 15,341,808

RX Exploration Inc.
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10. CAPITAL STOCK (Cont'd)

- (a) During the prior year the Company raised gross proceeds of \$4,530,700 by issuing units as follows:
- (i) 21,378,500 units were issued for gross proceeds of \$4,275,700. Each unit consisted of one common share and one warrant. The warrants entitle the holder to purchase a common share at prices ranging from \$0.25 to \$0.40 for a period of two years. The total fair value of the warrants issued, estimated at the date of issue using the Black-Scholes option pricing model, was \$1,438,295 (see Note 12).
 - (ii) 1,200,000 units were issued in consideration of mining services provided by a consultant valued at \$240,000.
 - (iii) 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 entitles the holder to purchase a common share at \$0.40 for a period of two years. The total fair value of the warrants issued, estimated at the date of issue using the Black-Scholes option pricing model, was \$2,000 (see Note 12).
 - (iv) 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 \$254,125 (see Note 12) representing the fair value of 1,699,500 broker warrants issued in connection with the above financings.
- (b) 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 at \$0.19 per share as an option payment for the Van Koughnet Silver claims.
- (c) During the year the Company raised gross proceeds of \$11,021,831 by issuing shares and units as follows:
- (i) 38,130,770 units were issued for gross proceeds of \$11,021,831. Each unit consisted of one common share and one warrant. The warrants entitle the holder to purchase a common share at prices ranging from \$0.40 to \$0.70 for a period of two years. The amount allocated to the warrants issued was \$3,181,112 (see Note 12).
 - (ii) Share issue costs of \$1,322,094 have been netted against the proceeds. Included in share issue costs is \$693,102 (see Note 12) representing the fair value of 2,648,891 broker warrants issued in connection with the above financing and \$198,535 (see Note 12) representing the allocation of share issue costs for warrants included in units issued.
- (d) During the year 1,400,000 stock options were exercised into common shares at exercise prices ranging from \$0.25 to \$0.32 for gross proceeds of \$413,000. The fair value of these options exercised was \$315,372 (see Note 11).
- (e) During the year 2,742,483 warrants were exercised into common shares at exercise prices ranging from \$0.15 to \$0.40 for gross proceeds of \$991,160. The fair value of these warrants exercised was \$370,049 (see Note 12).

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10. CAPITAL STOCK (Cont'd)

- (f) During the year 535,500 shares were issued to arm's length shareholders who purchased securities on June 30 and July 8, 2009. These shareholders were entitled to receive up to an additional 10% of the number of common shares purchased if the Company was not listed on the Toronto Stock Exchange ("TSX") or TSX Venture Exchange within four months of the closing of the financings. The shares are valued at the Company's share price per the Canadian National Stock Exchange four months after the closing of the financings. The share price was \$0.30 on October 30 and November 8, 2010 which resulted in a total value of \$160,650. The value of \$160,650 attributed to these shares was expensed and included in share capital..

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	2010	2009
Balance, beginning of year	\$ 993,163	\$ 682,802
Stock-based compensation expense (Note 15)	1,852,619	312,278
Stock options exercised (Note 10(d))	(315,372)	-
Warrants expired (Note 12)	505,896	-
Premium on acquisition of shares	-	(1,917)
Balance, end of year	\$ 3,036,306	\$ 993,163

12. SHARE PURCHASE WARRANTS

The following summarizes the change in share purchase warrants:

	2010	2009
Balance, beginning of year	\$ 6,574,042	\$ 4,879,622
Warrants issued (Note 10(c))	3,874,214	1,694,420
Warrants extended in term ⁽ⁱ⁾	1,818,950	-
Warrants exercised allocated to share capital (Note 10(e))	(370,049)	-
Warrants exercised allocated to shares to be issued (Note 13)	(141,186)	-
Warrants expired allocated to contributed surplus (Note 11)	(505,896)	-
Allocation of share issue costs for warrants included in units issued (Note 10(c))	(198,535)	-
Balance, end of year	\$ 11,051,540	\$ 6,574,042

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12. SHARE PURCHASE WARRANTS (Cont'd)

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

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

The share purchase warrants consists of regular warrants and broker warrants. The weighted average fair value of the warrants issued during the year was estimated at \$0.10 (2009 - \$0.07) using the Black-Scholes option pricing model with the following assumptions: (a) dividend yield of 0% (2009 - 0%); (b) expected volatility of 91% to 128% (2009 - 128% to 143%); (c) risk-free interest rate of 1.21% to 1.82% (2009 - 0.80% to 1.39%) and; (d) expected life of 1 to 2 years (2009 - 2 years).

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

13. SHARES TO BE ISSUED

Shares to be issued relate to 375,000 warrants exercised on June 28, 2010 at a price of \$0.40 for gross proceeds of \$150,000. The shares were not issued from treasury until after June 30, 2010. The total fair value of the warrants exercised, estimated at the date of grant using the Black-Scholes pricing model, was \$141,186 (Note 12).

	2010	2009
Warrants exercised	\$ 150,000	\$ -
Fair value ascribed to warrants exercised (Note 12)	141,186	-
Balance, end of year	\$ 291,186	\$ -

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14. STOCK OPTIONS AND WARRANTS (Cont'd)

14. STOCK OPTIONS AND WARRANTS

(a) Stock Options

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

The following summarizes the stock option activities:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	4,700,000	\$0.33	2,750,000	\$0.39
Issued	5,770,000	\$0.44	1,950,000	\$0.25
Exercised	(1,400,000)	\$0.30	-	\$-
Expired	(900,000)	\$0.53	-	\$-
Exchanged (Note 15)	(1,600,000)	\$0.32	-	\$-
Replaced (Note 15)	1,600,000	\$0.32	-	\$-
Outstanding at year-end	8,170,000	\$0.40	4,700,000	\$0.33
Exercisable at year-end	8,020,000	\$0.39	4,700,000	\$0.33

The Company had the following stock options outstanding as of June 30, 2010:

Number of Options	Exercisable	Exercise Price	Expiry Date
200,000	200,000	\$ 0.70	August 22, 2010
400,000	400,000	\$ 0.15	November 10, 2011
1,250,000	1,250,000	\$ 0.25	January 28, 2012
200,000	200,000	\$ 0.25	February 4, 2012
670,000	670,000	\$ 0.44	January 8, 2013
300,000	300,000	\$ 0.37	January 12, 2013
1,800,000	1,800,000	\$ 0.32	January 29, 2013
3,125,000	3,125,000	\$ 0.50	April 22, 2013
225,000	75,000	\$ 0.60	June 3, 2013
8,170,000	8,020,000		

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14. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants

The following summarizes warrant activities:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	40,602,033 ⁽ⁱ⁾	\$0.34	16,299,033	\$0.30
Issued	40,779,661	\$0.43	24,303,000	\$0.37
Exercised	(3,117,483) ⁽ⁱⁱ⁾	\$0.37	-	\$-
Expired	(2,606,550)	\$0.66	-	\$-
Outstanding at year-end	75,657,661	\$0.44	40,602,033	\$0.34

- (i) Included in this balance are 12,500,000 warrants with expiry dates ranging from April 3, 2010 to June 30, 2010 which were extended in term for a further 12 months from their respective original expiry dates during the current year, all other terms remained unchanged (see Note 12).
- (ii) Included in this balance are 375,000 warrants exercised on June 28, 2010, the shares were not issued from treasury until after June 30, 2010 (see Note 13).

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14. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

The Company had the following warrants outstanding at June 30, 2010:

Number of Warrants	Exercise Price	Expiry Date
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
2,450,000	\$ 0.25	January 19, 2011
225,000 (i)	\$ 0.20	January 19, 2011
50,000	\$ 0.25	January 29, 2011
5,000 (i)	\$ 0.20	January 29, 2011
140,000	\$ 0.20	February 6, 2011
9,865,000 (ii)	\$ 0.40	March 2, 2011
986,500 (i)	\$ 0.20	March 2, 2011
2,850,000	\$ 0.60	April 3, 2011
1,325,000	\$ 0.60	April 10, 2011
617,000	\$ 0.60	April 11, 2011
1,225,000 (ii)	\$ 0.40	April 24, 2011
122,500 (i)	\$ 0.20	April 24, 2011
75,000	\$ 0.60	April 30, 2011
133,000	\$ 0.60	May 5, 2011
4,868,500 (ii)	\$ 0.40	June 25, 2011
7,500,000	\$ 0.60	June 30, 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
3,590,000 (ii)	\$ 0.40	July 8, 2011
210,000 (i)	\$ 0.20	July 8, 2011
750,000 (ii)	\$ 0.40	October 6, 2011
4,127,000 (ii)	\$ 0.40	October 29, 2011
502,700 (i)	\$ 0.20	October 29, 2011
750,000 (ii)	\$ 0.40	November 4, 2011
2,177,000 (ii)	\$ 0.40	November 5, 2011
247,700 (i)	\$ 0.20	November 5, 2011
1,255,000 (ii)	\$ 0.40	November 6, 2011
3,009,994 (ii)	\$ 0.40	February 19, 2012
300,999 (i)	\$ 0.30	February 19, 2012
706,000 (ii)	\$ 0.40	March 1, 2012
2,615,166 (ii)	\$ 0.40	March 2, 2012
111,000 (i)	\$ 0.30	March 2, 2012
1,723,265 (ii)	\$ 0.40	March 18, 2012
172,326 (i)	\$ 0.30	March 18, 2012
1,106,800 (ii)	\$ 0.40	March 23, 2012
1,350,333 (ii)	\$ 0.40	March 24, 2012
135,033 (i)	\$ 0.30	March 24, 2012
833,334 (ii)	\$ 0.40	April 8, 2012
83,333 (i)	\$ 0.30	April 8, 2012
7,611,878 (ii)	\$ 0.40	April 27, 2012
635,800 (i)	\$ 0.30	April 27, 2012
5,000,000	\$ 0.70	May 13, 2012
250,000 (i)	\$ 0.50	May 13, 2012
75,657,661		

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

14. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

- (ii) 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 condition to accelerate was deferred until September 30, 2010.

15. STOCK-BASED COMPENSATION

The total stock based compensation relating to options issued pursuant to the stock option plan recognized during the year ended June 30, 2010 year was \$1,852,619 (2009 - \$312,278). Relating to this fair value, \$1,288,548 was recorded as stock based compensation expense while \$564,071 was capitalized to mining claims and deferred exploration and development costs since this fair value represents 2,275,000 options issued to individuals who work on mining claims.

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 issued during the year was estimated at \$0.28 (2009 - \$0.25) using the Black Scholes option pricing model with the following assumptions: (a) expected dividend yield of 0% (2009 - 0%); (b) expected volatility of 118% to 126% (2009 - 129% to 130%); (c) risk free interest rate of 1.79% to 2.87% (2009 - 1.36% to 1.39%) and; (d) expected life of 3 to 3.3 years (2009 - 3 years).

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

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16. INCOME TAXES

(a) Income Tax Expense

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

	2010	2009
Loss before income taxes	\$ (4,738,892)	\$ (963,661)
Statutory rate	31.5 %	33.3 %
Expected income tax recovery	\$ (1,492,751)	\$ (320,899)
Expired losses	-	46,400
Change in tax rates and other	6,200	41,400
Share issue costs	-	(179,700)
Change in valuation allowance	1,003,940	114,890
Non-deductible expenses and other	482,611	55,959
Income tax expense (recovery)	\$ -	\$ (241,950)

(b) Future Income Taxes

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

	2010	2009
Future tax assets		
Amounts related to tax loss and credit carryforwards	\$ 1,631,910	\$ 769,650
Capital losses	125,320	145,380
Share issuance costs	292,980	271,850
	2,050,210	1,186,880
Future tax liabilities		
Mineral properties	(637,580)	(778,190)
Net future tax asset	1,412,630	408,690
Less: Valuation allowance	(1,412,630)	(408,690)
	\$ -	\$ -

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16. INCOME TAXES (Cont'd)

- (c) The Company has non-capital losses of approximately \$5,070,900 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2014	\$	48,300
2015		27,200
2026		149,500
2027		79,000
2028		540,600
2029		1,345,100
2030		2,881,200
		<hr/>
		\$ 5,070,900

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

17. CAPITAL RISK MANAGEMENT

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

The Company includes equity, comprised of issued capital stock, share purchase warrants, contributed surplus, shares to be issued and deficit, in the definition of capital which totals \$19,654,108 at year end (2009 - \$10,631,267).

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

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

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the twelve months ended June 30, 2010.

18. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (comprised of currency 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, whom is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with their approved policies.

(a) Market Risk

The Company is exposed to foreign exchange risk from various currencies, primarily 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, 2010, the Company is exposed to currency risk through the following financial assets and liabilities denominated in US dollars:

Cash	\$	686,256
Amounts receivable	\$	289,483
Prepaid expenses and sundry assets	\$	94,372
Reclamation bonds	\$	15,700
Accounts payable and accrued liabilities	\$	762,212

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

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

(b) Fair Value Risk

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

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

18. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash, short-term investment, amounts receivable, due from agents and loan receivable. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions. The Company assesses its credit risk based on general market knowledge and specific information obtained through its business relationships with each customer. The amounts receivable and amounts due from agents and subscribers were 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 liquidity risk through the management of its capital structure as outlined in Note 17.

As at June 30, 2010, the Company has current liabilities of \$1,182,751 (2009 - \$700,241) due within 12 months and has cash, short-term investment, amounts receivable, due from agents and a loan receivable which total \$5,357,616 (2009 - \$1,214,407) to meet its current obligations. As at June 30, 2010 the Company has a working capital surplus of \$4,464,158 (2009 - \$550,733). Management will continue to raise capital to fund the Company's exploration, development and feasibility expenditures and for general and administrative costs.

19. RELATED PARTY TRANSACTIONS

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

Included in mining claims and deferred exploration and development expenditures are \$4,959 (2009 - \$40,960) of fees paid to the Company's legal counsel who is a director of the Company and \$Nil (2009 - \$46,654) paid to companies controlled by officers of the company.

Included in accounts payable and accrued liabilities is \$108,800 (2009 - \$74,252) due to the Company's legal counsel who is a director of the Company, \$Nil (2009 - \$40,000) due to a company controlled by directors of the Company and \$Nil (2009 - \$12,500) due to a company controlled by a director of the Company.

Included in capital stock is \$111,585 (2009 - \$42,693) 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 \$110,893 (2009 - \$128,349) of fees paid to the Company's legal counsel who is a director of the Company, \$240,000 (2009 - \$72,500) in management fees to a company controlled by directors of the Company and \$7,500 (2009 - \$7,500) of consulting fees paid to a company controlled by a director of the Company.

19 RELATED PARTY TRANSACTIONS (Cont'd)

Included in office and general is \$63,475 (2009 - \$47,516) of fees paid to a company controlled by directors of the Company, related to rent, and \$17,132 (2009 - \$Nil) of fees paid to a company controlled by a director of the Company.

20. CONTINGENCY

Pursuant to a flow-through share issuance of 3,722,000 flow-through units in fiscal 2008, the Company renounced to its investors certain expenditures in accordance with the look back rules under the Income Tax Act ("the Act"). As a result, the Company was committed to incurring approximately \$1,861,000 of Canadian Exploration Expenditures prior to December 31, 2008. The Company did not incur the required amount of Canadian Exploration Expenditures by December 31, 2008 and, as a result, incurred Part XII.6 tax in the approximate amount of \$75,000, this balance is included in accounts payable and accrued liabilities. In addition, the qualification of the eligibility of the Canadian Exploration Expenditures, including amounts funded to and then expended by the optionors of the Van Koughnet Townships claims (Note 8(b)), which were renounced in relation to the flow-through share issuance, are in the normal course of business subject to review by the Canada Revenue Agency ("CRA"). If these expenditures were denied by the CRA under their review, the Company would incur penalties and would be required to amend certain tax filings with its flow-through share investors.

21. SUBSEQUENT EVENTS

- (a) Subsequent to year-end, 424,000 warrants were exercised into common shares at exercise prices ranging from \$0.20 to \$0.40 for gross proceeds of \$135,800.
- (b) Effective August 4, 2010, the Company was listed on the TSX Venture Exchange and is no longer listed on the Canadian National Stock Exchange.
- (c) Per a new release issued the Company dated October 19, 2010, the outstanding share purchase warrants which contain a condition that 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 occurred on October 13, 2010. Accordingly, all share purchase warrants containing the acceleration provision will expire on November 12, 2010 unless exercised prior to 5:00 p.m. on or before that day (see Note 14).

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to the current year's financial statement presentation.