

**RX Exploration Inc.**  
**(the “Company”)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**Three month and Twelve month Period Ending**  
**June 30, 2010 and June 30, 2009**

## **1.1 Date**

Management’s Discussion and Analysis of the results of operations and liquidity and capital resources of **RX Exploration Inc.** (“RX or the “Company”) constitutes management’s review of the factors that affected the Company’s financial and operating performance for the year ended June 30, 2010 and the Company’s financial condition and future prospects. Except as otherwise noted, this discussion is dated October 22, 2010 and should be read in conjunction with the Company’s audited consolidated financial statements for the years ended June 30, 2010 and June 30, 2009. The Company prepares its financial statements in Canadian dollars and all amounts in this MD&A are expressed in Canadian dollars in accordance with Canadian generally accepted accounting principles (“GAAP”). These documents along with others published by the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking Statements**

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

## **1.2 Overall Performance**

### **Description of Business**

The Company is engaged in mineral exploration in the state of Montana, USA and northern Ontario, Canada. At this time the Company is engaging in bulk sampling and test mining in Montana, USA. The Company raises funds for exploration and general overhead and other expenses through the issuance of shares from treasury.

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.

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

The Company operates the Drumlummon Mine project through its 100% owned subsidiary, Drumlummon Gold Corp.

The Company entered into an agreement with private arm's length owners to option from them 100% of their interest in patented mining claims (the "Hard Rock Claims") situated in Lewis and Clark County in the State of Montana. The Company holds approximately 2,320 acres including, 28 contiguous patented mining claims covering the Drumlummon Mine and adjacent unpatented mining claims. In order to maintain the Drumlummon option in good standing, the Company has paid the sum of US\$960,000 to date to the Optionors. The Company must pay a further US\$240,000 by April 13, 2011. The final payment is being held in trust with the law firm, Doney Crowley Bloomquist Payne, awaiting closing. As additional consideration, the Company has paid to the Optionors 200,000 common shares in the capital of the Company. A two percent (2%) Net Smelter Return ("NSR") royalty on the Drumlummon Claims has been reserved to the Optionors.

The Company completed an updated technical report on September 25, 2009 in accordance with the standards set out in National Instrument 43-101. The report was prepared by Dr. Richard C. Capps of R.C. Capps & Associates, a "qualified person" within the meaning of National Instrument 43-101. The report was publicly filed on SEDAR website at [www.sedar.com](http://www.sedar.com) on November 6, 2009.

As per NI 43-101 of November 21, 2008, T.J. Beesley, P.Eng. has calculated initial inferred resources of 155,518 tons containing 70,703 oz. of gold and 1,915,560 oz. of silver as summarized below:

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

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

Dr. Capps report dated September 25, 2009 and Mr. Beesley's report dated November 21, 2008 can be viewed in their entireties on the Company's website ([www.rxexploration.com](http://www.rxexploration.com)) or SEDAR ([www.sedar.com](http://www.sedar.com)).

The following includes the latest significant assay results which have been reported by the Company

Hole	From (ft)	To (ft)	Intersection Length (ft)	Gold Au oz/ton	Silver Ag oz/ton
09-72	19	51	32	0.350	9.38
incl.	45	51	6	1.526	46.65

	incl.	45	47	2	3.246	134.10
09-74		44	61.5	17.5	0.254	1.36
09-75		72	102	30	0.208	0.57
	and	124	132	8	0.431	1.01
09-76		14	16	2	0.158	0.87
	and	22	26	4	0.106	0.81
	and	36	39	3	0.161	3.32
09-77		18	19	1	3.032	9.11
09-78		14	16	2	0.180	22.08
	and	18	19	1	5.200	2.84
09-80		14	20	6	0.645	5.017
	incl.	16	18	2	1.550	11.55
09-81		14	16	2	1.364	2.37
09-82		14	16	2	1.130	1.44
09-83		41	43.5	2.5	0.244	4.81
09-85		40	44	4	0.117	5.58
	and	68	74	6	0.272	1.14
	incl.	70	72	2	0.580	0.91
	and	80	82	2	0.234	0.50
09-86		46	48	2	0.580	16.83
	and	56	59	3	1.060	51.38
	incl.	58	59	1	2.976	146.29
09-87		29	31	2	0.692	6.12
	and	66	86	20	0.513	4.23
	incl.	72	74	2	1.186	4.53
	incl.	80	82	2	1.706	28.47
09-88		34	36	2	2.248	7.23
	and	52	54	2	2.356	7.72
	and	66	88	22	0.487	2.63
	incl.	66	82	16	0.624	3.28
09-91		92	96	4	0.373	0.83
	and	102	103.5	1.5	0.428	1.95
09-93		12	16	4	0.096	16.07

	and	36	40	4	0.718	12.76
	and	94	96	2	2.829	91.36
09-95		38	40	2	0.406	42.54
09-111		32	54	22	0.618	1.69
10-113		14	33	19	0.283	1.65
10-115		23	41	18	0.488	1.66
10-120		14	58	44	0.206	0.73
	Incl.	14	40	26	0.315	0.92
	Incl.	30	40	10	0.578	1.32
10-123		62	74	12	0.442	2.51
	and	98	106	8	0.779	9.32
10-124		31	53	22	0.289	1.33
	Incl.	31	39	8	0.507	2.36
	and	47	53	6	0.324	1.00
10-173		152	156	4	0.373	1.66
	and	190	210	20	1.688	16.90
10-175		181	182	0.5	2.562	191.22
	and	200	204	4	0.168	2.95
10-176		178	186	8	0.293	13.77
10-179		201	205	4	0.320	13.98
	and	213	219	6	0.297	4.00
10-191		120	126	6	0.289	2.76
10-192		200	206	6	0.169	3.52
10-193		128	132	4	0.997	6.40
	and	194	204	10	0.265	2.12
10-197		182	186	4	1.029	7.38
	and	216	236	20	0.884	6.69
	and	274	280	6	0.801	0.50
10-198		200	206	6	0.925	15.83
10-199		268	298	30	0.196	0.35

10-200                      166                      190                      24                      0.430                      12.60

The results suggest that there may be mineralized material from the new discovery (Charly Vein) as well as material remains on the walls of the old workings and unmined blocks of ore. This confirms the potential for developing very significant tonnage of high grade gold and silver over large widths in this “bonanza”-type epithermal deposit, in the vicinity of all of the old workings as well as totally undeveloped areas of the mine.

The Company reported that an underground exploration ramp currently being driven at the Drumlummon Mine, Montana has crossed a vein within the Charly Vein System at the 500 foot level that assayed an average of 3.13 ounces per tonne (“opt”) of Gold and 55.6 opt of Silver over a true vein width of 7.4 feet. Channel samples taken across the vein are provided in the table below. “Opt” refers to ounces per ton and “g/t” refers to grams per tonne. A cross cut was driven a further 150 feet for a drill station (Drill Station #8) in the hanging wall.

<b>Channel Samples across Charly Vein Cross-cut</b>		
Composite Sample Width	Gold	Silver
12 inches	7.84 opt	202.1 opt
23 inches	2.50 opt	37.0 opt
12 inches	5.57 opt	10.8 opt
12 inches	4.47 opt	126.7 opt
18 inches	0.03 opt	0.04 opt
12 inches	0.52 opt	2.7 opt
<hr/>		
Total Width	Gold – Average	Silver - Average
7.4 ft   2.3 meters	3.13 opt 107.2 g/t	55.6 opt  1904 g/t

The Company has leased a gravity/flotation mill facility (the “Mill”) to enable bulk metallurgical and process test-work to be completed on mineralized material (the “Feedstock”) from the Drumlummon Gold & Silver Mine, Marysville, MT, taken as part of the bulk sampling program currently underway.

The Mill is located in Philipsburg, MT, which is about 114 road miles from the Drumlummon Mine. The Mill has nameplate capacity of 1,000 tons per day and includes a jaw plus cone crushing circuit, two 300 HP conical grinding mills, a jig plus Wilfley table gravity circuit, six banks of flotation cells, and a licensed tailings storage facility. The Company is conducting ongoing test work to determine actual capacity of Drumlummon ore through the Philipsburg Mill. The Mill is being leased from May to December, 2010 for US\$30,000 per month plus US\$30 per dry ton milled. The Company is responsible for utilities, consumables and manpower costs while operating. The Company intends to continue the relationship with the Philipsburg Mill.

The Company has completed three initial bulk test-milling runs on mineralized material extracted from the Drumlummon Mine, MT (the “Feedstock”) with gold recoveries exceeding 92% and silver recoveries exceeding 87% in the third run.

The first test of 160.4 tons, done in May, 2010, shown in the table below, was conducted at a small mill in Virginia City, MT with 82.28% recovery of gold and 68.32% recovery of silver.

The next two larger tests, done in June, 2010, of 657.54 and 1899.48 tons were conducted at the Philipsburg Mill. The test results are summarized in the table below.

### Virginia City Mill

Dry Tons	Metal	Calc Grade opt	Gravity Conc Oz	Floatation Conc Oz	Total Oz In Conc	Oz In Tails	Recovery
160.40	Au	0.344	26.115	19.282	45.397	9.779	82.28%
160.40	Ag	9.142	296.050	705.790	1001.840	464.480	68.32%

### Phillipsburg Mill - Bulk Test

1

627.54	Au	0.309	94.921	71.208	166.129	27.888	85.63%
627.54	Ag	6.539	564.630	2904.530	3469.160	634.310	84.54%

### Phillipsburg Mill - Bulk Test

2

1899.48	Au	0.341	312.770	284.870	597.640	50.459	92.21%
1899.48	Ag	7.986	2160.370	11068.780	13229.150	1940.320	87.21%

Additional bulk test-milling runs will be completed at the Mill throughout the summer, fall and winter of 2010/2011. The Company is gradually increasing throughput as crews are trained and experience is gained with the milling characteristics of the Drumlummon Feedstock. The bulk test-milling program is intended to optimize metallurgical recoveries and fully develop the metallurgical flow sheet.

Table concentrates are being fired on site to produce a gold silver dore that is shipped to a refiner. Table midds and flotation concentrates are being trucked to a broker in Reno, Nevada. Payment schedules provide for approximately 97% of contained gold and approximately 95% of contained silver for dore and approximately 95% of each of gold and silver for concentrates.

### Charly Vein, Drumlummon Mine

By June 30, 2010, the Company had drifted in mineralization on the Charly Vein over a strike length of 150.6 meters (502 feet) at the 500 level and the vein remains open to the north and at depth. The Company is continuing to drift to the north while diamond drilling to depth.

The drift to the north was extended 28.35 meters (93 feet) and the face remained in mineralization. The vein in the new drifting had an average width of 1.92 meters (6.3 feet) and a weighted average grade of 27.77 g/t (0.81 opt) gold and 1594.29 g/t (46.5 opt) silver. The 17 faces sampled included a 2.1 meter (6.4 foot) wide vein with a weighted average grade of 104.91 g/t (3.06 opt) gold and 9325.7 g/t (272.2 opt) silver and a 3.75 meter (12.3 foot) wide vein with a weighted average grade of 52.46 g/t (1.53 opt) gold and 1.553.1 g/t (45.3 opt) silver.

A decline has been driven to the 550 level at a grade of -15%. This decline provides access to the Charly vein at the 530 level to enable drifting and extraction to the north and south.

Diamond drilling to test the Charly Vein at greater depth is also underway. Drill station #8 has been established at a distance of 150 feet into the hanging wall of the Charly Vein (east) on the 500 level. From this location diamond drilling (N size) can intersect the Charly Vein down to the 800 level, and the D Block area of the Castletown and Drumlummon veins down to the 900 level.

A raise was established from 96 to 112 feet south of the Charly Vein North and South intersection (“Charly N-S”). Sub-drifts were driven at the 470 level to the north and south from this raise. Generally, the south sub-drift was found to have marginal grade/width, however high grade gold and silver values were encountered in the north sub-drift. The weighted average of channel samples across 13 consecutive faces of the north sub-drift was 75.87 grams per tonne (g/t) or 2.213 ounces per ton (opt) gold (Au) and 822.79 g/t or 23.998 opt silver (Ag) over an average true width of 2.2 meters (7.2 feet). The average includes a high of 449.49 g/t or 13.11 opt Au and 2036.23 g/t or 59.39 opt Ag over a true width of 1.5 meters (5 feet).

From drill station #8, a recent 26 hole, 3,779 meter (12,398 foot) underground diamond drill program has encountered the Charly Vein 30 meters (100 feet) to the southwest and 36 meters (120 feet) down dip. Highlights from this drill program include:

DDH 10-173 pierced the Charly Vein at the 660 foot level and returned 6.10 meters (20 ft) averaging 57.87 g/t gold (1.68 opt) and 597.33 g/t silver (16.9 opt). The true width of this intercept is estimated to be about 3.05 meters (10 ft); and

DDH 10-200 pierced the Charly Vein at the 640 foot level, 40 feet to the northeast of DDH 10-173, and returned 7.32 meters (24 ft) averaging 14.74 g/t gold (0.43 opt) and 432.00 g/t silver (12.60 opt). The true width of this intercept is estimated to be 5.4 meters (17.8 ft).

The remaining assays from the last 18 holes drilled into the Charly Vein from Drill Station 8 have been reported in the October 14, 2010 press release . This drill station is situated about 46 meters (150 feet) east of the Charly Vein (in the hanging wall) just below the 500 foot level of the Drumlummon mine.

Highlights include:

DDH 10-152 intersected 2 ft (0.6 meters) averaging 2.23 opt gold (76.37 g/t gold) and 90.7 opt silver (3,106 g/t silver). The true width of this intercept is estimated to be about 1.5 ft (0.46 meters);

Further down this hole a 14 ft intercept (4.3 meters) averaged 0.22 opt gold (7.53 g/t gold) and 6.30 opt silver (215.75 g/t silver).

## **D-Block, Drumlummon Mine**

Two headings were driven from the main internal exploration ramp to intersect the D-block (114.3 meters or 375 feet west of the Charly) on the 450 level and on the 500 level. A by-pass drift around a caved area on the old 500 level was driven to provide ventilation and a second escape-way to the 400 level from the lower levels for exploration drillers, geologists and development miners working below.

A total of 805.6 meters (2,643 feet) in development headings has been driven below the 400 level as of June 30, 2010. The accompanying chart summarizes the development headings and distances of each to June 30, 2010.

The D-Block mineralization has now been confirmed to a strike length of 150 feet (45.7 meters). The mineralization averages about 20 feet wide (6.1 meters) between the 400 and 450 levels. The zone remains open for expansion down dip as well as to the south. More drilling is planned below the 450 level.

Assay highlights from D-Block include:

Hole DDH-10-111 intersected 22 ft (6.7 meters) averaging 0.62 opt gold (21.23 g/t gold) and 1.69 opt silver (57.88 g/t silver). The estimated true width is 18.7 ft (5.7 meters).

Hole DDH-10-113 intersected 19 ft (5.8 meters) averaging 0.28 opt gold (9.69 g/t gold) and 1.65 opt silver (56.51 g/t silver). The estimated true width is 14.4 ft (4.4 meters).

Hole DDH-10-165 intersected 8 ft (2.4 meters) averaging 0.84 opt gold (28.63 g/t gold) and 7.31 opt silver (250.34 g/t silver). The estimated true width is 6 ft (1.8 meters).

### Total Length of Development Headings below 400' Level as of June 30, 2010

Heading	Total to Date (Feet)	Total to Date (Meters)	June Total (Feet)	June Total (Meters)
Main Internal Exploration Ramp	725.0	221.0	160.0	48.8
D-Block Ramp	295.0	89.9		
X-cuts for drill stations	195.0	59.4		
#1 Charly North	337.0	102.7	303.0	92.4
#1 Charly South	262.0	79.9	262.0	79.9
#1 Charly South Raise	30.0	9.1	30.0	9.1
#1 Charly South Sub North	74.5	22.7	42.5	13.0
#1 Charly South Sub South	102.5	31.2	37.0	11.3
Charly north raise	30.0	9.1	30.0	9.1
D-block drifting	535.0	163.1		
500 level Escape-way	57.0	17.4	57.0	17.4
<b>Total</b>	<b>2643.0</b>	<b>805.6</b>	<b>921.5</b>	<b>280.9</b>

From June 16 to June 30, 2010, a total of 1,926.9 tons of Feedstock was milled bringing the total tonnage processed at the Mill to 4,453.94 tons up to June 30, 2010. The average daily throughput during the June 16-30 period was 175 tons per day (“tpd”).

The Company produced 1,378 ounces of gold (“Au”) and 20,981 ounces of silver (“Ag”) during July, 2010 as a result of the bulk metallurgical test-work program ongoing at the Company’s 100% owned Drumlummon Mine, Marysville, Montana (the “Drumlummon”). Highlights of recent activity were:

- 1,378 oz. Au & 20,981 oz. Ag produced from bulk metallurgical testwork program during July, 2010
- Average mill throughput 182.5 tons per day during July, 2010 with 3<sup>rd</sup> shift being added to increase throughput
- Initial blast in Charly South shrinkage stope occurred August 13<sup>th</sup>, 2010
- The electric/hydraulic drill mobilized to 450 level for longhole stoping of Drumlummon D Block

The technical details contained in this Management Discussion and Analysis report have been reviewed by L. Joseph Bardswich, P. Eng. (Mining) (Ontario).

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

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

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

Pursuant to the Joint Venture Agreement, Spruce Ridge earned its 50% working interest in the Joint Venture Property by subscribing to a private placement of the Company in the amount of CDN \$3,000,000 consisting of a total of 7,500,000 units at a price of CDN \$0.40 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at CDN \$0.60 per share until June 30, 2011. The Company was responsible for payment of all cash and share payments required to acquire the JV Property with the exception of all reserved royalties on the tailings and placers. Each party will pay its proportionate share of future exploration and development costs. If either party elects not to participate in a program of expenditures, a standard dilution clause will apply.

The Company and Spruce Ridge have formed Marysville Mining and Milling LLC (“MMM”) to own the Placer Claims. By completing the \$3,000,000 private placement into the Company, Spruce Ridge earned its 50% working interest in the JV Property and 50% ownership of MMM which completed the purchase of the JV Property. RX purchased outright the JV Property from the arm’s length vendors in July 2008 for the sum of US \$625,000 plus 350,000 common shares of the Company which was subject to a hold period which expired July 2, 2009 and transferred the property to the JV. The vendors, who are the same principals from whom the Company acquired the Drumlummon Mine, will retain a 2% NSR on tailings and 3% gross royalty on placer mineralization. The JV Property includes all appurtenant water rights.

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

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

## **Drumlummon Mine (Montana) – Bald Butte Property**

In April, 2010, the Company entered into an agreement to acquire a package of mineral claims immediately adjacent to the south-west boundary of the current Drumlummon Gold Project holdings, Marysville, Montana. This acquisition will increase the Company’s ground position significantly at Drumlummon and is comprised of 22 patented claims and 50 federal claims covering about 1,000 acres (405 hectares).

The package of mineral claims acquired is called the Bald Butte Property. Historic gold and silver production of approximately 100,000 ounces is reported to have occurred from five different veins on the Bald Butte Property between 1882 and 1942. RX plans to examine the potential relationship between gold occurrences on the Drumlummon and on the Bald Butte property.

The property has recently been explored for molybdenum by a previous operator and a considerable amount of drill core remains from recent molybdenum drilling which was not assayed for gold or silver. RX plans to re-assay some of this core for gold and silver as part of its investigation of the property. RX may also look for a joint venture partner to develop the molybdenum potential while retaining rights to the gold and silver.

The total purchase price of the Bald Butte property will be US\$5,000,000 if the acquisition is fully completed, plus a 2% net smelter royalty. The purchase price is to be paid in annual installments over the next 35 years, with RX being required to pay US\$55,000 this year and annual payments rising to \$150,000 at year five and thereafter. The Company paid US\$55,000 on April 21, 2010. The Company will issue 200,000 shares in the very near future in accordance with the option agreement.

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

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

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

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

### **Property Agreements**

Under Agreement A, in order to earn a 50% undivided working interest, the Company paid the sum of \$25,000 and 100,000 common shares of the Company on closing and must pay annual advance royalty payments of \$12,000 thereafter. The Company has paid the March 10, 2009 and March 10, 2010 royalty payments of \$12,000 each. The Company must incur \$1,500,000 in expenditures on mining operations within two years, of which \$500,000 must be completed within Twelve months. The Company has incurred and/or funded \$1,549,258 in exploration expenditures towards the commitment as of June 30, 2010. The Company issued a further 60,000 common shares on March 10, 2009, the first anniversary of closing and must issue a further 60,000 common shares of the Company on the date of exercise of the option.

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

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

Currently the Company is in the process of arbitration with its joint-venture partners.

### **Veekay Lake Mining Claims**

The Company entered into an option agreement dated October 21, 2005 with Wabassi River Resources Inc. ("Wabassi"), an arm's length company, to acquire an undivided 50% interest in eight (8) unpatented mining claims (totaling 108 claim units) in the Thunder Bay Mining Division, in the Province of Ontario (the "Claims").

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

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

The Company received notice from the Optionor that the Company is in default under the option, which position the Company rejects. The Company is considering all of its legal remedies to enforce the terms of the option and compliance on the part of the Optionor.

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

To convert ounces per ton to grams per tonne use 1 opt = 34.245 g/t.

### **1.3 Selected Financial Information**

Total assets at the end of the period ended June 30, 2010 were \$20,852,812 (June 30, 2009 - \$11,365,771) and consisted of cash and short-term GIC in the amount of \$3,697,666 (June 30, 2009 - \$12,797), amounts receivable of \$359,950 (June 30, 2009 - Nil), amounts due from agent of \$300,000 (June 30, 2009 - \$1,201,610), prepaid expenses and sundry assets in the amount of \$289,293 (June 30, 2009 - \$36,567), plus plant & equipment in the amount of \$731,768 (June 30, 2009 - Nil). In addition, mining claims and deferred exploration expenditures in the amount of \$14,458,182 (June 30, 2009 - \$10,080,534) plus reclamation bonds of \$15,953 (June 30, 2009 - \$34,263).

3 months ended	Total Revenue	Income or (loss) before discontinued operations & extraordinary items	Income or (loss) including discontinued operations & extraordinary items	Net Income or (loss) per share Basic & diluted	Total Assets	Long-term Liabilities
June 30	\$	\$	\$	\$	\$	\$
2010	Nil	(3,349,344)	(3,349,344)	(0.0494)	20,852,812	15,953
2009	Nil	(303,361)	(303,361)	(0.0051)	11,365,771	34,263

12 months ended	Total Revenue	Income or (loss) before discontinued operations & extraordinary items	Income or (loss) including discontinued operations & extraordinary items	Net Income or (loss) per share Basic & diluted	Total Assets	Long-term Liabilities	Cash dividends declared per share
June 30	\$	\$	\$	\$	\$	\$	\$
2010	Nil	(4,738,892)	(4,738,892)	(0.0550)	20,852,812	15,953	Nil
2009	Nil	(721,711)	(721,711)	(0.0140)	11,365,771	34,263	Nil

## 1.4 Results of Operations

The Company has earned revenue from the sale of gold and silver concentrate. This revenue is netted in the current year in deferred exploration cost additions. The total revenue is \$367,974 (\$350,682 USD). No revenue was earned during the year ended June 30, 2009. The Company also earns short-term GIC interest revenue in the amount of \$1,767 (June 30, 2009 - \$6,917). Sales of gold and silver concentrate plus the exercising of warrants funds the Company's mining exploration and development operations.

### Three months ended June 30, 2010 Compared to three months ended June 30, 2009:

Total expenses excluding extraordinary items for the three months ended June 30, 2010 amounted to \$3,351,111 (including \$563,082 in stock-based compensation) compared to \$368,493 (including \$43,553 in stock-based compensation) for the three months ended June 30, 2009.

The Company earned \$1,767 in GIC interest for the three months ended June 30, 2010 (June 30, 2009 – Nil).

The Company incurred a loss of \$3,349,344 for the three months ended June 30, 2010 as opposed to a loss of \$303,033 for the three months ended June 30, 2009.

The expenses consist of office and general expenses of \$31,137 (June 30, 2009- \$48,770), professional fees of \$368,080 (June 30, 2009 - \$140,534), director fees of \$54,250 (June 30, 2009 – Nil), marketing expenses of \$67,704 (June 30, 2009 – Nil), stock-based compensation of \$563,082 (June 30, 2009 - \$43,553) consistent with stock options issued to officers, directors and consultants, delayed listing penalty of \$160,650 (June 30, 2009 – Nil) due to additional shares issued to arms-length shareholders because of a delay in the Company's TSXV listing, Part XII.6 tax of \$NIL (June 30, 2009 - \$30,964) and future tax recovery of \$NIL (June 30, 2009 - \$65,460).

There was a write-down of deferred exploration expenditures for the three months ended June 30, 2010 in the amount of \$2,106,208 related to the Van-Koughnet Township property as there was a dispute between the Company and the optionors regarding funding of the exploration work. There was a write-down of deferred exploration expenditures for the three months ended June 30, 2009 in the amount of \$105,000 related to the Thunder Bay mining claims due to the length of time which had passed since these costs were incurred.

During the three months ended June 30, 2010, the Company extended the expiry dates of 12,500,000 warrants with expiry dates ranging from April 3, 2010 to June 30, 2010 for a further 12 months from their respective original expiry dates. This modification of share purchase warrants increased the deficit of the Company by \$1,818,950.

During the three months ended June 30, 2010 the Company sustained a loss of \$0.0494 per share compared to a loss of \$0.0051 for the three months ended June 30, 2009.

#### **Twelve months ended June 30, 2010 Compared to twelve months ended June 30, 2009:**

Total expenses excluding extraordinary items for the twelve months ended June 30, 2010 amounted to \$4,740,659 (including \$1,288,548 in stock-based compensation) compared to \$970,578 (including \$312,278 in stock-based compensation) for the twelve months ended June 30, 2009.

GIC interest in the amount of \$1,767 was earned for the twelve months ended June 30, 2010 compared to \$6,917 for the twelve months ended June 30, 2009.

The Company incurred a loss of \$4,738,892 for the twelve months ended June 30, 2010 as opposed to a loss of \$721,711 for the twelve months ended June 30, 2009.

The expenses consist of office and general expenses of \$362,620 (June 30, 2009-\$126,844), professional fees of \$700,679 (June 30, 2009 - \$351,913), director fees of \$54,250 (June 30, 2009 – Nil), marketing expenses of \$67,704 (June 30, 2009 – Nil), stock-based compensation of \$1,288,548 (June 30, 2009 - \$312,278) consistent with stock options issued to officers, directors and consultants, delayed listing penalty of \$160,650 (June 30, 2009 – Nil) due to additional shares issued to arms-length shareholders because of a delay in the Company's TSXV listing, Part XII.6 tax of \$NIL (June 30, 2009 - \$74,543) and future tax recovery of \$NIL (June 30, 2009 - \$241,950).

There was a write-down of deferred exploration expenditures for the twelve months ended June 30, 2010 in the amount of \$2,106,208 related to the Van-Koughnet Township property as there was a dispute between the Company and the optionors regarding funding of the exploration work. There was a write-down of deferred exploration expenditures for the twelve months ended June 30, 2009 in the amount of \$105,000 related to the Thunder Bay mining claims due to the length of time which had passed since these costs were incurred.

During the twelve months ended June 30, 2010, the Company extended the expiry dates of 12,500,000 warrants with expiry dates ranging from April 3, 2010 to June 30, 2010 for a further 12 months from their respective original expiry dates. This modification of share purchase warrants increased the deficit of the Company by \$1,818,950.

During the twelve months ended June 30, 2010 the Company sustained a loss of \$0.055 per share compared to a loss of \$0.014 for the Twelve months ended June 30, 2009.

## Fixed Assets

The following is a list of the fixed assets held by the Company as of June 30, 2010:

	Cost	Accumulated Amortization	Net
	\$	\$	\$
<u>Plant &amp; Equipment</u>			
Shop building	60,303.50	0	60,303.50
Water plant	445,731.72	0	445,731.72
Exploration equipment	206,108.63	0	206,108.63
Terra Source software	19,623.90	0	19,623.90
	731,767.75	0.00	731,767.75

## Deferred Development Costs

As of June 30, 2010, the Company had \$14,458,182 in mining claims and deferred expenditures compared with \$10,080,534 as of June 30, 2009. The \$6,483,856 attributable to the twelve months ended June 30, 2010 was mainly attributable to test mining, milling, rehabilitation and underground diamond drilling at the Drumlummon Mine in Montana. Included in the current year additions is \$564,071 representing the fair value of 2,275,000 options issued during the year to individuals who work on mining claims. Netted in current year additions is total revenue of \$367,974 (\$350,682 USD) earned from the sale of gold and silver equivalent in concentrate. Approximately \$212,000 in precious metal inventory is included in the ending balance.

Deferred exploration costs of \$2,106,208 were written off during the twelve month period ended June 30, 2010 related to the Van Koughnet Township Claims as noted above.

Deferred exploration costs of \$105,000 were written off during the twelve month period ended June 30, 2009 related to the Thunder Bay Claims as noted above.

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

Categories	Fiscal Year - Jun 30, 2010	Fiscal Year - Jun 30, 2009
	\$	\$
<u>Drumlummon Mine</u>		
Legal	58,511.66	33,031.63
Purchase & Options	243,072.00	320,839.03
FV of Options		
Granted	564,071.00	-
Assessment	116.10	5,453.00
Claims	17,052.00	-

Milling	363,860.02	-
Settlements	(303,354.15)	-
Engineering, Operations & Project Supervision	1,550,800.40	831,143.14
Geological	45,803.32	161,450.65
Rehabilitation	1,105,126.37	1,741,061.57
Insurance	31,839.11	-
Restoration Bonds	(18,309.84)	20,263.07
Exploration	2,688,160.95	1,750,349.40
Water Plant	-	-
Supplies	30,410.63	49,828.79
On-Site trailer	4,110.28	7,247.43
Contract Labour	-	15,938.62
General	29,029.93	114,084.66
<u>Placer Claims</u>		
Purchase & Options	-	397,062.00
Legal	1,214.96	11,674.55
<u>Bald Butte</u>		
Purchase & Options	55,852.50	-
Legal	0	-

### General and Administration Expenses

Following is a breakdown of components of expenses for the three months ended June 30, 2010 and 2009:

Expenses	2010 - \$	2009 - \$	Change - \$
Interest and Finance Charges	5,831	227	5,604
Office, Administrative & Other Exp.	33,943	30,087	3,856
Legal	152,735	391	152,344
Professional Services	215,345	140,143	75,202
Director Fees	54,250	0	54,250
Travel	143,673	25,686	117,987
Marketing	67,704	0	67,704
Filing and Regulatory	19,535	10,509	9,026
Web site	709	1,418	(709)
Foreign Exchange (gain) loss	(172,555)	(19,156)	(153,399)
Interest and Other Income	(1,767)	0	(1,767)
Part XII.6 Tax	0	30,964	(30,964)
Future Tax recovery	0	(65,460)	65,460
Delayed listing penalty	160,650	0	160,650

Following is a breakdown of components of expenses for the twelve months ended June 30, 2010 and 2009:

Expenses	2010 - \$	2009 - \$	Change - \$
Interest and Finance Charges	6,842	882	5,960
Office, Administrative & Other Exp.	127,383	78,465	48,918
Legal	169,950	97,017	72,933
Professional Services	530,729	254,896	275,833
Director Fees	54,250	0	54,250
Travel	186,537	44,028	142,509
Marketing	67,704	0	67,704
Filing and Regulatory	46,551	56,554	(10,003)
Web site	7,068	4,043	3,025
Foreign Exchange (gain) loss	(11,761)	(57,129)	45,368
Interest and Other Income	(1,767)	(6,917)	5,150
Part XII.6 Tax	0	74,543	(74,543)
Future Tax recovery	0	(241,950)	241,950
Delayed listing penalty	160,650	0	160,650

Office, administrative and other includes rent, office supplies, office equipment repairs & maintenance, telephone and reflected the significant increase in activities of the Company.

Increases in Professional Services and Travel are primarily the result of the increased business and financial activities of the Company along with the activities of a fully-owned subsidiary. In addition, the Company underwent a corporate restructure effective July 1, 2010. Since the activities of the Company continue to increase, the Company has engaged the services of a management company to manage and oversee its financing, drilling, exploration and administrative functions.

During the period the total professional services required by the Company increased due to several private placements, regulatory and permitting issues, service contracts, securities regulatory filings, management activities, the corporate restructure and all other related activities.

### 1.5 Summary of Quarterly Results to June 30, 2010

Quarter Ended	Sales/Revenue - \$	Income/(Loss) - \$	Net Income(Loss) per share Basic & Diluted-\$
Jun 30/10	Nil	(3,349,344)	(0.0494)
Mar 31/10	Nil	(485,324)	(0.0056)
Dec 31/09	Nil	(211,303)	(0.0030)
Sep 30/09	Nil	(692,919)	(0.0096)

Jun 30/09	Nil	(303,361)	(0.0051)
Mar 31/09	Nil	(317,134)	(0.0062)
Dec 31/08	Nil	(37,205)	(0.0010)
Sep 30/08	Nil	(64,339)	(0.0010)
Jun 30/08	Nil	(36,617)	(0.0267)
Mar 31/08	Nil	(673,714)	(0.0207)
Dec 31/07	Nil	(35,189)	(0.0010)
Sep 30/07	Nil	(20,174)	(0.0010)

As at June 30, 2010 there were 111,016,331 shares (\$15,341,808) issued and outstanding.

## 1.6 Liquidity

As at June 30, 2010 the Company had a working capital surplus (current assets less current liabilities) of \$4,464,158 (2009 - \$550,733), cash and short-term investments of \$3,697,666 (2009 - \$12,797) and current liabilities of \$1,182,751 (2009 - \$700,241).

As at June 30, 2010 the Company had no contractual commitments or lease agreements other than as disclosed herein or in relation to its ongoing obligations to geological consultants and contractors employed in its ongoing underground operations in the Drumlummon Mine in Montana.

## 1.7 Capital Resources

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

The Company anticipates that it will not require additional capital over the next 12 months.

On October 20, 2010, the Company had on hand the sum of US \$1,844,102 and CDN \$5,155,375 in cash.

The Company in the past has relied upon private placement subscriptions to satisfy its funding requirements and may continue to do so in the future. There are no assurances that capital requirements will be met by this means in the future and the Company is mindful of the current challenges in the capital markets and the economy in general. The company expects to continue to receive funds from the sale of gold and silver obtained from the continuing test mining at the Drumlummon mine.

## 1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## **1.9 Transactions with Related Parties**

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

Included in mining claims and deferred exploration 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.

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.

## **1.10 Commitments and Contingencies**

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 June 30, 2009. The Company did not incur the required amount of Canadian Exploration Expenditures by June 30, 2009 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, 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.

## **1.11 Proposed transactions**

There are no proposed transactions other than described herein.

## **1.12 Critical Accounting Estimates**

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

### **1.13 Adoption of New Accounting Standards**

Effective July 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants ("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.

### **1.14 Financial Instruments and Other Instruments**

#### **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 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 loss during the period.

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 receivable
Accounts payable and accrued liabilities	Other liabilities

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.

### **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.

### **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 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 and software 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.

### **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.

### **Foreign Currency Translation**

The Company's wholly-owned subsidiaries, Drumlummon Gold Mine 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.

### **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 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 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.

## **Share 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.

## **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 (See note 8(c) to the Financial Statements) 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.

## **International Financial Reporting Standards – IFRS Changeover Plan**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to use IFRS, replacing Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2011.

During 2010, the Company commenced a high-level preliminary assessment and identification of the standards that affect its financial statements, business and system processes. However the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. During 2011, the Company plans on advancing through the detailed assessments of the higher priority areas, which were identified in the preliminary assessment. These detailed assessments will be designed to determine the effect on business activities including information technology and data systems, internal controls over financial reporting and, finally, disclosure controls and procedures.

### **1.15 Controls and Procedures**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures, for the nature and size of the entity, are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

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

### **1.16 Other MD&A Requirements**

During the twelve months ended June 30, 2010 and the subsequent period to date, management of the Company focused its efforts, along with its joint venture partners, on the exploration of its Claims as described above.

Share Data: 123,270,105 shares issued as at October 22, 2010. Additional information relating to the Company is available on SEDAR @ [www.sedar.com](http://www.sedar.com).