

RX Exploration Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three month periods ended September 30, 2011 and 2010
All figures are in U.S. dollars, unless otherwise indicated

Date

Management's Discussion and Analysis of the results of operations and liquidity and capital resources of **RX Exploration Inc.** ("RXE" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three month period ended September 30, 2011 and the Company's financial condition and future prospects. Except as otherwise noted, this discussion is dated December 28, 2011 and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three month periods ended September 30, 2011 and 2010. The Company prepares its financial statements in U.S. dollars and all amounts in this Management's Discussion and analysis ("MD&A") are expressed in U.S. dollars, unless otherwise stated, and in accordance with International Financial Reporting Standards ("IFRS"). These documents along with additional information relating to the Company are available on SEDAR at www.sedar.com.

Forward-Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information includes, but is not limited to, the Company's expectations, intentions, plans and beliefs with respect to, among other things, its mining properties and exploration and development activities. Often, but not always, forward-looking information can be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information is based on the opinions and estimates of the Company as of the date such information is provided and is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including the ability to develop and operate the Drumlummon property and the Company's other mining properties, risks associated with the mining industry such as economic factors (including future commodity prices, currency fluctuations and energy prices), failure of plant, equipment, processes and transportation services to operate as anticipated, environmental risks, government regulation, actual results of current exploration activities, possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, social and political developments and other risks of the mining industry. Although RXE has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

1.1 Overall Performance

Company Overview

RXE is an exploration company engaged in the acquisition, exploration, evaluation and development of precious metals mineral properties in North America. Currently, the Company is transitioning to production at its Drumlummon mine in Montana. The Company's strategic objective is to become a gold and silver producer through development of its own projects and consolidation of complementary projects. The Company's management and Board of Directors (the "Board") are comprised of senior

mining executives who have extensive experience identifying, developing, financing and operating precious metals deposits globally. The Company is formed under the *Business Corporations Act* (Ontario) with its head office in Toronto, Ontario.

The Company's flagship property is the 100%-owned Drumlummon mine in Lewis and Clark County, Montana, USA. The Company owns approximately 2,320 acres including 28 contiguous patented mining claims covering the Drumlummon mine and adjacent unpatented mining claims. The Company's interest in the property includes surface water and mineral rights. The Company is currently exploring and evaluating the Drumlummon mine which is expected to transition to commercial production in fiscal 2012.

The Company reviews its exploration portfolio annually to determine if the projects continue to meet the Company's objectives.

The Company listed on the TSX Venture Exchange effective August 4, 2010. The Company is a reporting issuer in Ontario, British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol "RXE". The Company was listed on the OTCQX International effective October 27, 2010 and trades under the symbol "RXEXF".

Objective and Strategy

The objectives for fiscal 2012 are to:

- hire an experienced and highly effective management team by the fiscal 2nd quarter of 2012
- enhance the safety culture and environmental awareness at the Drumlummon mine
- complete an updated NI 43-101 resource estimate on the Drumlummon mine in the fiscal 3rd quarter of 2012
- transition from exploration and evaluation mining to commercial production in the fiscal 4th quarter of 2012
- evaluate and execute land consolidation and corporate development opportunities
- file for a full operating permit for the Drumlummon mine in fiscal 2nd quarter of 2012, and
- engage the local community to identify areas of concern before the Drumlummon mine goes into commercial production

New Management Team

On July 6, 2011, a new Board was elected to lead the Company after former management was unsuccessful in its attempt to seize control of the Company through a proxy contest. On July 6th, the new Board appointed Darren Blasutti as President and CEO of the Company and former management was terminated. Mr. Blasutti was given the mandate to hire an effective and experienced mining executive team capable of bringing the Drumlummon mine into commercial production and to accretively grow the Company's gold production and resources on a per share basis beyond the Drumlummon asset.

As of October 11, 2011, the Company's new executive team was significantly enhanced by the hiring of the COO, CFO, VP Exploration and Corporate Counsel of the Company. The Company has moved into a new corporate office in Toronto, ON.

Jim Atkinson was appointed the Company's Vice President, Exploration on July 6, 2011. On August 17, 2011, RXE announced the appointments of Robert M. Taylor as Chief Operating Officer and Warren Varga as Chief Financial Officer. Mr. Varga replaced John Ryan, who served as interim Chief Financial Officer during the proxy contest and is currently a director of the Company. Effective October 11, 2011, Peter McRae was appointed Vice President, Corporate Counsel and Secretary.

Enhance Safety Culture and Environmental Awareness

In fiscal 2010, the Company had over 100 citations from the U.S. Labor Department's Mine Safety and Health Administration (MSHA) with an outside contractor running the Drumlummon mine activities. From

July 1, 2011 to December 19, 2011, the Company experienced two reportable accidents, one reportable incident and no lost time accidents after transitioning away from the outside contractor to owner mining. Although fiscal 2011 showed significant improvement in safety statistics in all areas after the transition to owner mining, the Company's corporate and mine management believes improvements can and must be made as the operation strives for a zero incident work place. It is the philosophy of the new Board and management that every employee goes home safe to their families every day. Further, management plans to strengthen controls, procedures, monitoring, and disclosure around all environmental issues that affect the Drumlummon mine and surrounding local communities.

Update September 2009 NI 43-101 Resource Estimate

One of the first priorities of the new Board was to approve a new drill budget of \$3.5 million to evaluate underground targets along strike and at depth on the Charly vein, the Empire vein and D Block in order to increase the gold and silver ounces and issue a new NI 43-101 resource estimate. The exploration program started in late August was completed in early December 2011, however just over \$2.0 million was spent due to a lack of power for an additional drill. These drilling results combined with drilling completed between October 2009 and June 2011 will comprise the data that will be compiled in the new NI 43-101 resource estimate that is expected to be filed with regulatory authorities in fiscal Q3 2012. A press release was issued on December 21, 2011 containing the results of the program.

The new NI 43-101 compliant resource estimate remains on track for release in fiscal Q3, 2012. During the past five months:

- AMEC Consultants completed an audit of exploration procedures and operations;
- Dr. Barry Smee completed an independent audit of the Company's assay lab; and
- A NI 43-101 resource estimate and technical report was initiated by Wardrop (Tetra Tech).

Transition to Commercial Production

Over the course of fiscal 2012, the Company expects to transition from evaluation mining to commercial production. The new resource estimate will enable management to complete the requisite technical studies, based on the actual productivity, costs and recovery data from the Drumlummon mine and the Philipsburg mill during the evaluation mining period. These studies are being worked on concurrently with the new resource statement and are expected to be filed in late fiscal Q3 or Q4 2012. This information will allow management to communicate production targets and operating costs to shareholders and investors. Management cannot currently communicate production targets or costs today given the lack of an updated NI 43-101 resource estimate and the requisite technical studies.

From July 7 through to December 19, 2011, the Drumlummon mine produced an average of approximately 165 tons per day of mineralized material that was shipped to the Philipsburg mill. The majority of the material produced over this time period came from the Empire vein and Pixley areas, D Block and some mining at Charly vein earlier in the period. The Company's management has been focused on waste development in order to provide multiple access points to the key veins like Charly that will be mined when the Company announces production targets as it transitions to commercial production. Over the same period, waste development has approximately averaged 250 tons per day.

Land Consolidation and Corporate Development

A key ongoing priority is to increase the Company's gold resources and gold production on a per share basis. Since fiscal year end 2011, the Company has expanded its property ownership in the Drumlummon Mine/Marysville area through staking and entering into option agreements. Staking has expanded the number of unpatented claims from approximately 140 to 230. In addition, the Company optioned a group of claims in the area west of the Drumlummon Mine and north of Bald Butte called the Penobscot Extension in the area of the former gold producing Penobscot Mine.

By the end of fiscal 2012, management expects to significantly increase the Company's footprint around the mine area. Further, investigation by management of attractive corporate development opportunities is ongoing.

File Full Operating Permit

The Company expects to submit its application for a full operating permit in fiscal Q2 2012. This application will contemplate a minimum 500 ton/day mining rate at the Drumlummon mine and the construction of a 100% owned milling complex on the Company's existing land near the Drumlummon mine. The Company has hired CDM out of Helena, Montana to prepare the application for the operating permit. CDM is a US headquartered, global consulting, engineering, construction, and operations firm which provides services across the project life cycle in water, environment, transportation, energy, and facilities.

Engage Local Communities

The historic town of Marysville, Montana was originally built to house and service the Drumlummon mine in the 1800's and as a result is in close proximity to the Drumlummon mine. Issues such as noise, domestic well water levels and road safety among others need to be discussed and solutions and mitigation plans put in effect for the Drumlummon mine to be successful. The Company's new management has begun consultations with Marysville residents in order to understand the issues facing them. Further, after submitting the application for a full operating permit, there will be a period for extensive consultation with the local communities affected.

1.2 Significant Events

Underground Drilling (approximately 36,375 feet)

Mineralized areas have been outlined in the Charly, the D Block, D Block South of the Drumlummon, and the Xmas vein. These zones will be the basis of the gold and silver resources calculation in the upcoming NI 43-101 resource estimate. Further, detailed underground drilling in the Drumlummon vein (Pixley and Empire areas) has focused on locating higher grade gold and silver left behind by previous mining which has supported evaluation mining over the last five months. Below are recent examples of intersections from the Charly, DBlock, Drumlummon, Empire, North Star and Xmas veins which show high grade assays, significant thickness and multiple intersections in a single vein.

	Hole number	Footage	Total	Au Oz./ T	Ag Oz. /T
Charly vein	DDH11-376	152-164'	12'	0.185	2.25
	DDH11-376	174-184'	10'	0.258	3.98
	DDH11-490	322-326'	6'	0.325	0.48
	DDH11-379	170-194'	24'	0.189	1.47
	DDH11-379	202-204'	2'	0.124	6.26
	DDH11-379	232-238'	6'	0.57	57.88
	DDH11-390	202-226'	24'	0.337	1.59
	DDH11-489	317-323'	6'	0.121	0.5
	DDH11-490	296-304'	8'	0.133	0.23
	DDH11-490	308-312'	4'	0.109	0.16
D Block	DDH11-404	113-115'	2'	0.762	1.4
	DDH11-404	133-139'	6'	0.151	1.08
	DDH11-405	106-110'	4'	0.267	1.38
Drumlummon vein	DDH11-423	114-138'	24'	1.336	1.41
	DDH11-424	34-38'	4'	0.132	0.58
	DDH11-425	111-113'	4'	0.103	0.41

	DDH11-428	32-52'	20'	0.113	0.36
	DDH11-457	66-96'	30'	0.303	1.52
	DDH11-458	10-14'	4'	2.216	12.185
	DDH11-458	16-22'	6'	0.522	1.42
	DDH11-458	34-36	2'	0.044	1.36
	DDH11-458	44-50	6'	0.769	1.35
Empire vein	DDH11-365	38-48'	10'	0.214	0.57
	DDH11-366	62-78'	16'	0.179	0.43
	DDH11-385	254-258'	4'	0.335	1.52
	DDH11-386	130-132'	2'	0.824	1.18
	DDH11-386	220-222'	2'	0.102	0.26
	DDH11-386	243-249'	6'	0.195	1.1
	DDH11-388	127-129'	2'	0.166	0.45
	DDH11-388	243-255'	12'	0.586	1.24
Xmas vein	DDH11-496	262-264'	2'	0.606	0.67
	DDH11-496	331-339'	8'	0.76	1.24
	DDH11-496	400-410'	10'	0.204	0.26
Xmas/Drumlummon	DDH11-396	123-125'	2'	0.17	1.33
	DDH11-396	188-196'	8'	0.182	2.38

Surface Drilling (approximately 11,360 Feet)

Surface drilling has discovered new zones of mineralization in the North Star vein and the footwall of the Drumlummon vein. Drilling was initiated at the 9 Hour workings but quickly abandoned due to poor ground conditions and inclement weather. The new areas will be a focus and followed up from underground in calendar year 2012. Below are recent examples of intersections from the North Star vein and Drumlummon Footwall which will not be included in the upcoming NI 43-101 resource estimate.

	Hole Number	Footage	Total	Au Oz./T	Ag Ox./T
Northstar vein	DDH11-394	374-376'	2'	0.01	1.92
	DDH11-394	869-873	4'	0.502	0.55
	DDH11-394	1014-1016'	2'	0.308	0.51
	RXS11-11	460-462'	2'	0.2	1.22
	RXS11-13	517-529'	14'	0.158	0.32
	RXS11-15	96-100'	4'	0.264	0.27
	RXS11-15	280-282'	2'	1.312	0.32
	RXS11-09	808-832'	24'	0.225	0.56
	DDH-08-002	161-167'	6'	0.299	0.3
	SDDH-08-007	479-483'	4	0.292	0.76
Drumlummon FW	RXS11-04	798-811'	13'	0.605	0.6

All drilling results are available on the Company's website.

Note: the intersections shown above are not necessarily representative of true width of the mineralized zones since the holes may have encountered the mineralized veins at various angles.

Quality Assurance/Quality Control

All holes are systematically logged, sampled and shipped under strict chain of custody procedures to the assay laboratory at the Drumlummon Mine for sample preparation and analyses utilizing fire assay and gravimetric techniques. Approximately 10% of the samples are sent to an independent commercial laboratory for check analyses.

A thorough quality control program has been in effect at the Drumlummon mine which includes adding blanks, reference material and duplicates. A recent laboratory audit by an independent consultant did not identify significant issues with the procedures but did recommend improvements which the laboratory has implemented.

The exploration drill results disclosed in this release were approved by Jim Atkinson, the Vice President, Exploration of the Company and a Qualified Person in accordance with NI 43-101.

Soil Sampling and Property Acquisition

Soil samples were collected every 100 feet along lines spaced 1200 feet apart on RXE claims adjacent to the Drumlummon Mine. A total of 850 samples were obtained with anomalous results for gold ranging up to 2.45 ppm while large areas of gold, silver, antimony, copper and mercury anomalies were also encountered. Staking has expanded the number of claims to 230 and the Company has optioned a number of additional claims in the area west of the Drumlummon mine and north of Bald Butte.

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

Proxy Contest

Set forth below is a chronology of the events leading up to, during and following the Company's recent proxy contest:

- On May 13, 2011 the Company mailed its management information circular (the "Original Circular") in connection with the annual and special meeting of RXE shareholders scheduled to be held on June 7, 2011 (the "Meeting"). On May 17, 2011 a dissident group of shareholders, including two of the Company's current directors at that time, filed a proxy circular in an attempt to seize control of the Company.
- In order to provide the special committee of the Board (the "Special Committee") with time to replace the dissident nominees on the RXE slate and to provide a detailed response to the dissidents' proxy circular, on May 27, 2011, the Company postponed the Meeting. On June 2, 2011 the dissidents announced they would commence an application in the Ontario Superior Court of Justice stating in their news release that they were seeking an order requiring the Company to hold the Meeting as originally scheduled.
- On June 6, 2011 RXE's Special Committee announced that it proposed to add mining and corporate executives to the Board and management team as part of an alternative slate of nominees.
- On June 7, 2011 the Ontario Superior Court of Justice ruled that the Meeting be adjourned until July 6, 2011 in order to allow shareholders to make an informed decision about the future management of the Company.

- On June 12, 2011 RXE filed an amendment to the Original Circular (the “Amended Circular”). The Amended Circular responded to the dissidents’ proxy circular, proposed a new slate of directors (the “New RXE Nominees”) and provided shareholders with the New RXE Nominees’ business plan for the Company. The New RXE Nominees consisted of Hugh Agro, Darren Blasutti, Alex Davidson, Louis Dionne, Paul Parisotto and Lorie Waisberg, as well as incumbent directors John O’Donnell and John Ryan. It was also proposed that, following the election of the New RXE Nominees, Darren Blasutti would be appointed as President and Chief Executive Officer and Lorie Waisberg would be appointed as Chairman.
- At the Meeting on July 6th, a total of 80,100,790 or 55.8% of all voted shares were cast for the election of the New RXE Nominees and the independent chairman declared the New RXE Nominees elected as the Company’s directors.
- Following the Meeting, the new Board met and made the following appointments: Lorie Waisberg was appointed as Chairman, Darren Blasutti was appointed as President and Chief Executive Officer, John Ryan was appointed as acting Chief Financial Officer and Jim Atkinson was appointed as Vice President Exploration. In addition, Louis Dionne was appointed as Chairman of the Health, Safety and Environment Committee, Alex Davidson was appointed as Chairman of the Compensation and Governance Committee and Paul Parisotto was appointed as Chairman of the Audit Committee. The new Board also approved the termination of former management.

Financings

On July 20, 2011, RXE completed a non-brokered private placement of 5,000,000 units at a price of CDN\$0.456 per unit for gross proceeds of CDN\$2,280,000. Each unit is comprised of one common share and one common share purchase warrant, and each such warrant entitles the holder thereof to purchase one additional common share at a price of CDN\$0.60 for a two year period beginning on the date that the units were issued. All of the units are subject to a four month hold period that expired on November 21, 2011. The new Board subscribed for 3,400,000 of the units issued pursuant to the private placement.

Subsequent to quarter end, the Company through its wholly-owned subsidiary Drumlummon Ltd. (the “Borrower”) entered into a senior secured line of credit facility agreement (the “Credit Agreement”) with an affiliate of Hale Capital Partners, L.P., for up to \$10 million. All amounts owing under the Credit Agreement are guaranteed by the Company. Outstanding amounts under the Credit Agreement accrue interest at a fixed rate of 8.75% per annum with interest payable monthly in arrears starting the sixth month after the initial advance of funds. Amounts owing under the Credit Agreement may be prepaid in whole or in part without premium or penalty at any time and any remaining outstanding amounts are due on or before May 8, 2013. The Credit Agreement is secured by a first charge against all the properties and assets of the Borrower, the Company and certain of its subsidiaries. As at December 28, 2011, the Company has drawn \$2,895,000 under this facility for working capital purposes.

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

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

Options Granted

On July 6, 2011, RXE granted the new RXE Board (other than Messrs. O’Donnell and Ryan), certain officers and a consultant of the Company an aggregate of 7,200,000 stock options at a strike price of CDN\$0.49 per common share pursuant to the Company’s stock option plan. One-third of the options are for a term of two years, with the balance for a term of five years, and all options vested at the time of the grant.

On September 13, 2011, RXE announced the grant of stock options to certain officers, employees and consultants of the Company. A total of 1,100,000 stock options were granted pursuant to the Company’s stock option plan: 600,000 were granted to senior officers (other than the Chief Executive Officer);

200,000 were granted to employees; and 300,000 were granted to a consultant. All options vested immediately and have a strike price of CDN\$0.55. One-third of the options have a term of two years, and the balance have a term of five years.

1.3 Selected Annual Information

Balances are presented under IFRS, unless otherwise stated:

	Three months ended September 30, 2011	(\$) Year ended June 30, 2011	Year ended June 30, 2010 (CGAAP)
Total revenue	Nil	Nil	Nil
Net loss	(7,704,987)	(14,608,802)	(4,492,470)
Net loss per share, basic & diluted	(0.047)	(0.102)	(0.053)
Total assets	9,591,394	12,317,324	19,587,047
Total liabilities	3,074,984	3,117,553	1,125,943

1.4 Summary of Quarterly Results to September 30, 2011

Balances are presented under IFRS, unless otherwise stated:

Quarter ended	Sep 30/11	Jun 30/11	Mar 31/11	Dec 31/10	Sep 30/10	Jun 30/10 (CGAAP)	Mar 31/10 (CGAAP)	Dec 31/09 (CGAAP)
Sales/Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Loss (\$)	(7,704,987)	(6,177,378)	(4,681,825)	(3,374,847)	(374,752)	(3,258,577)	(466,785)	(199,914)
Loss per share: Basic & Diluted (\$/share)	(0.047)	(0.041)	(0.029)	(0.023)	(0.003)	(0.031)	(0.005)	(0.003)

Three months ended September 30, 2011 compared to three months ended September 30, 2010

The Company incurred a loss of approximately \$7.7 million (\$0.047 loss per share) for the three months ended September 30, 2011 compared to a loss of \$0.4 million (\$0.003 loss per share) for the three months ended September 30, 2010. The increase in net loss of \$7.7 million is primarily due to the increase exploration costs during the period related to the Drumlummon property amounting to \$4.1 million (2010 - \$0.2 million recovery), net of settlement revenues, share based payments of \$2.6 million (2010 - \$nil), and increased office and general costs of \$0.5 million (2010 - \$0.2 million).

The increase exploration costs during the period related to the Drumlummon property amounting to \$4.1 million (2010 - \$0.2 million recovery) net of settlement revenues is due to the Company continuing its exploration program started in late August 2011. These drilling results combined with previous results to comprise the data that will be compiled in the new NI 43-101 resource estimate that is expected to be filed with regulatory authorities in fiscal Q3 2012. For the three month period ended September 30, 2011, total settlements from the sale of concentrate were \$4.2 million (2010 - \$3.7 million), net of direct costs, from processing approximately 1,900 oz. of gold and 38,850 oz. of silver.

The Company's office and general expenses for the three month period ended September 30, 2011 were \$0.5 million (2010 - \$0.2 million). The increase is due to the required additional personnel to administer the Company as a result of the Company being listed on the TSX Venture Exchange and the OTCQX.

Management also incurred higher expenses in their efforts to market the Company to international investors.

The Company had stock-based compensation expense of \$2.6 million (2010 - \$nil) for the three month period ended September 30, 2011. Stock-based compensation expenses are booked based on the valuation of options using the Black-Scholes model. The expense varies based on the number of options issued and the underlying assumptions used in the model.

The Company also earned investment revenue of \$0.1 million for the three months ended September 30, 2011 compared to \$3 thousand for the three months ended September 30, 2010 mainly due from the accretion of the promissory note receivable and interest earned on other financial assets.

1.5 Liquidity

As at September 30, 2011, the Company had a working capital surplus (current assets less current liabilities) of \$1.9 million compared to \$5.6 million at June 30, 2011 consisting of cash, other financial assets, prepaid expenses and sundry assets and trade and other receivables of \$4.9 million (\$8.7 million, June 30, 2011) and trade and other payables of \$3.0 million (\$3.1 million, June 30, 2011).

During the three month period ended September 30, 2011, 245,226 warrants and 900,000 options were exercised for net proceeds of approximately \$0.2 million.

1.6 Capital Resources

Sources of capital available to the Company to execute its exploration program and transition to commercial production are the debt and equity markets, proceeds from the settlements of gold and silver concentrate obtained from evaluation mining and joint venture arrangements with other mineral resource companies. The Company has entered into several agreements, which may cause 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.

On December 21, 2011, the Company had \$1.3 million in cash, accounts payable in the amount of \$1.1 million and \$2.9 million outstanding on its line of credit.

At the end of fiscal Q1 2012, the Company experienced increased difficulty selling its concentrate from evaluation mining due to a maintenance shutdown at the Company's primary refiner. While the Company's primary refiner subsequently resumed processing RXE's concentrate, the global concentrate market remains in oversupply resulting in limited refining alternatives. The Company expects to continue to experience delays converting mineralized material from evaluation mining into working capital. However, the Company has entered into arrangements with alternative refiners to assess the Company's concentrate in order to increase the available processing options.

Subsequent to the Credit Agreement, RXE does not anticipate it will require additional capital over the next 12 months in order to meet its short-term goal of continuing to explore the Drumlummon property, releasing a NI 43-101 compliant resource statement, permitting, developing and commencing full-scale operations at the Drumlummon Mine. The Company's ability to draw further capital and maintain its current outstanding balance under the Credit Agreement is subject to the maintenance of covenants and compliance with restrictions set forth therein.

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 as well as consider alternative funding sources including debt arrangements. There can be no assurance 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.

1.7 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

1.8 Financial instruments and other instruments

The Company's financial instruments primarily consist of cash (classified as fair value through profit and loss), other financial assets (classified as fair value through profit and loss), trade and other receivables (classified as loans and receivables) sundry assets (classified as loans and receivables), investment in Argentium Resources Inc. (classified as available-for-sale), promissory note receivable (classified as loans and receivables), reclamation bonds (classified as loans and receivables) and trade and other payables (classified as other financial liabilities). Cash and other financial assets are recorded at fair value. The fair values of the remaining financial instruments are materially consistent to their carrying values. The Company has not used any hedging or any other financial derivatives.

Other financial assets consist of cashable Guaranteed Investment Certificates ("GIC") with a Canadian chartered bank. As at September 30, 2011, the Company owns one GIC consisting of \$0.1 million bearing interest at 0.75% per annum. This GIC was redeemed on December 6, 2011.

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

During the three months ended September 30, 2011:

- Included in professional and consulting fees are \$42,848 (2010 - \$Nil) of consulting fees paid to a company controlled by a former officer and current director of the Company and \$Nil (2010 - \$36,975) of consulting fees paid to a company controlled by a former director of the Company.
- Included in office and general is \$Nil (2010 - \$9,993) of fees paid to a company controlled by a former director of the Company, related to rent and office expenses, and \$Nil (2010 - \$8,970) of fees paid to a company controlled by a former director of the Company.
- Included in capital stock is \$Nil (2010 - \$3,555) of share issuance costs for fees paid to the Company's legal counsel who is a director of the Company.

1.10 Commitments and Contingencies

As at September 30, 2011 the Company had no contractual commitments or lease agreements other than as disclosed herein or in relation to its ongoing obligations to consultants and contractors employed in its ongoing operations at the Drumlummon mine in Montana and in its ongoing corporate operations.

Subsequent to quarter end, the Company acquired a parcel of land in Lewis and Clark County, Montana. Though the initial payment under this contract has been paid, there remains an additional \$300,000 to be paid on or before 18 months after the agreement was initially signed.

1.11 Proposed transactions

There are no proposed transactions other than described herein.

1.12 Critical Accounting Estimates

Mining Properties

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

Property, plant and equipment

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

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

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

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

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

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

Settlement Revenues

Consequential revenue from the sale of gold and silver equivalent, extracted during the Company's exploration and evaluation activities, is recognized on the date the mineral concentrate level is agreed upon by the Company and customer, as this coincides with the transfer of title, the risk of ownership, the determination of the amount due under the terms of settlement contracts the Company has with its customer, and collection is reasonably assured.

Future Site Restoration Costs

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

passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Provisions

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

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

Share-based payment transactions

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

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

Equity settled transactions

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

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

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

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

1.13 Risks and Uncertainties

The Company's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the Company's common shares should be considered speculative.

Mineral Exploration

The business of exploration for minerals and mining involves a high degree of risk. A relatively small proportion of properties that are explored are ultimately developed into producing mines. At present,

there are no known bodies of commercial ore on any of the mineral properties in which the Company holds interest or intends to acquire an interest and the proposed exploration program is an exploratory search for ore. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration programs. The Company has limited experience in the development and operation of mines and has relied on and may continue to rely upon consultants and others for exploration and operating expertise. The economics of developing gold, base metal and other mineral properties is affected by many factors including the cost of operations, variation of the grade of ore mined, and fluctuations in the price of any minerals produced.

Additional Funding Requirements and Potential Dilution

The Company has no current or foreseeable prospect of generating significant revenues. Accordingly, the success of the Company is dependent, among other things, on obtaining sufficient funding to enable the Company to explore and develop its properties. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company will require new capital to continue to operate its business and to continue with exploration on its mineral properties, and there is no assurance that capital will be available when needed, if at all. It is possible such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

The issuance of common shares of the Company upon the exercise of options and/or warrants will dilute the ownership of the Company's current shareholders. The Company may also issue additional securities convertible into common shares of the Company in the future, the conversion of which would result in further dilution to the shareholders of the Company.

Continuation of Operating Losses

The Company does not have a long historical track record of operating upon which investors may rely. Consequently, investors will have to rely on the expertise of the Company's management. Further, the Company's properties are in the exploration stage and may not be commercially viable at this time. The Company does not have a history of earnings or the provision of return on investment, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

Title to Mineral Properties (Ownership Rights)

Although title to the Company's properties (the "Properties") has been reviewed by or on behalf of the Company, no assurances can be given that there are no title defects affecting the Properties. Title insurance generally is not available for mining claims and the Company's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be limited. The Company has not conducted surveys of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. It is possible that the Properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate the Properties as permitted or to enforce its rights with respect to its Properties.

Resource Estimates

The resources presented in this document are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the expected level of recovery will be realized. Such figures have been determined based upon assumed metal prices. Future production could differ dramatically from estimates due to mineralization or formations different from those predicted by drilling, sampling and similar examinations or declines in the market price of the metals may render the mining some or all of the resources as uneconomic.

Economic

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any mineral products discovered. The prices of mineral products have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

Commodity Price Risk

The ability of the Company to develop its mining properties and the future profitability of the Company is directly related to the market price of gold and silver.

Competition

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees, contractors and consultants.

Environmental

The Company's operations are subject to environmental regulations promulgated by local, state, and federal government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner, which means stricter standards and enforcement, and fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Joint Ventures and Option Agreements

The Company enters into option agreements and joint ventures as a means of gaining property interests and raising funds. Any failure of any partner to meet its obligations to the Company or other third parties, or any disputes with respect to third parties' respective rights and obligations could have a material adverse effect on such agreements. In addition, the Company may be unable to exert direct influence over strategic decisions made in respect to properties that are subject to the terms of these agreements.

Legal

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company's resources and cause increases in expenditures or exploration costs or reduction in levels of activities on exploration projects, or require abandonment or delays in the development of new exploration properties.

Regulations and Permitting

The operations of the Company may require licenses and permits from various local, state and federal governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development, or mining operations, at its projects.

Uninsurable Risks

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties, personal injury or death, environmental damage, delays in exploration, and monetary losses and possible legal liability. Where the Company considers it practical to do so, it maintains insurance in amounts believed to be reasonable, including coverage for directors' and officers' liability and fiduciary liability and others.

Such insurance, however, contains exclusions and limitations on coverage. Accordingly, the Company's insurance policies may not provide coverage for all losses related to the Company's activities (and specifically do not cover environmental liabilities and losses). The occurrence of losses, liabilities or damage not covered by such insurance policies could have a material and adverse effect on the Company's results of operations and financial condition. The Company cannot be certain that insurance will be available to the Company, or that appropriate insurance will be available on terms and conditions acceptable to the Company. In some cases, coverage is not available or considered too expensive relative to the perceived risk.

Dependence on Key Employees, Contractors and Management

The Company currently has a small executive management group, which is sufficient for the Company's present stage of activity. Given that future success will depend, in large part on the efforts of the current executive management group, the loss of a significant number of the members of this group could have a material adverse effect on the Company, its business and its ability to develop its projects. The Company does not maintain key person life insurance. Accordingly, the loss of the services of one or more of such key management personnel could have a material adverse effect on the Company.

The mining industry has been impacted by increased worldwide demand for critical resources including industry consultants, engineering firms and technical experts. These shortages have caused increased costs and delays in planned activities. The Company is also dependent upon a number of key personnel, including the services of certain key employees and contractors. The Company's ability to manage its activities, and hence its success, will depend in large part on the efforts of these individuals. The Company faces intense competition for qualified personnel, and there can be no assurance that the Company will be able to attract and retain such personnel.

Conflict Of Interest

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

1.14 Adoption of New Accounting Standards

Transition to IFRS from GAAP

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt IFRS for financial periods beginning on and after January 1, 2011.

The Company has adopted IFRS with an adoption date of July 1, 2011 and a transition date of July 1, 2010 (the "Transition Date").

IFRS Conversion

The Company's IFRS conversion plan was comprehensive and addressed matters including changes in accounting policies, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the conversion was understood and managed reasonably, the Company hired an IFRS conversion project manager. The accounting staff attended training courses on the adoption and implementation of IFRS. Through in-depth training and the preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting personnel have obtained a thorough understanding of IFRS.

The Company has also reviewed its current internal and disclosure control processes and believes they will not need significant modification as a result of our conversion to IFRS.

Impact of IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. In order to allow the users of the financial statements to better understand these changes, we have provided the reconciliations between Canadian GAAP and IFRS for the total assets, total liabilities, shareholders equity and net loss in Note 3 to the interim consolidated financial statements. The adoption of IFRS has had no significant impact on the net cash flows of the Company. The changes made to the statements of financial position and comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however, there has been no change to the net cash flows.

In preparing the reconciliations, the Company applied the principles and elections of IFRS 1, with a transition date of July 1, 2010. As the Company has adopted IFRS effective July 1, 2010, it will apply the provisions of IFRS 1 as described under the section entitled "Initial Adoption – IFRS 1", with a July 1, 2010 transition date. The Company will also apply IFRS standards in effect at August 31, 2012 as required by IFRS 1.

Initial Adoption of International Accounting Standards

IFRS 1 "First Time Adoption of International Accounting Standards" sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional date of the statement of financial position with all adjustments to assets and liabilities as stated under Canadian GAAP taken to accumulated deficit unless certain exemptions are applied. The Company elected to take the following IFRS 1 optional exemptions:

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

Comparative Information

The Company has restated all prior period figures in accordance with IFRS.

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 Outstanding Share Data

As at December 28, 2011, there were 167,890,196 common shares issued and outstanding and 23,336,296 common shares that were issuable upon the conversion or exercise of the 11,156,296 warrants and 11,180,000 options that were outstanding.

1.17 Management's Responsibility

The accompanying interim consolidated financial statements (the "Financial Statements") have been prepared by management and are in accordance with IFRS. All amounts are expressed in U.S. dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements.

The Company's certifying officers are responsible for ensuring that the Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's officers certify that that the Financial Statements fairly present, in all material respects, the financial condition, result of operations and cash flows, of the Company as the date hereof.

The Board of Directors approves the Financial Statements and ensures that the Company's officers have discharged their financial responsibilities. The Board's review is accomplished principally through its Audit Committee, which meets periodically to review all financial reports, prior to filing.

External auditors, appointed by the shareholders, have not audited or reviewed the financial statements for the three month periods ended September 30, 2011 and 2010 and did not performed the tests deemed necessary to enable them to express an opinion on these unaudited financial statements.

1.18 Additional information

Additional information about RXE is available through filings on SEDAR (WWW.SEDAR.COM)

1.19 Approval

This MD&A was reviewed and approved by the Board of Directors of RXE and is effective as of December 28, 2011.