

RAINY RIVER RESOURCES LTD.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE MONTH PERIOD ENDED
DECEMBER 31, 2009

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated February 9, 2010 includes financial information from, and should be read in conjunction with the unaudited interim consolidated financial statements of Rainy River Resources Ltd. (the "Company") for the three months ended December 31, 2009. Please refer to the cautionary notes at the end of this MD&A. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars (unless otherwise stated).

Rainy River Resources Ltd. is a Canadian mineral exploration company based in Vancouver, British Columbia. The Company's principal focus is its Rainy River Project, located 80 kilometers south of Kenora in the southwest corner of northern Ontario. The Company does not have any assets or mineral properties that are in production, however, on May 27, 2009, the Company announced an updated NI 43-101 compliant gold and silver resource estimate for the Rainy River Property. At a 0.4 g/t Au block cut-off, indicated resources totaled 2.225 million ounces of gold and 3.375 million ounces of silver at an average gold grade of 1.24 g/t, and inferred resources totaled 1.807 million ounces of gold and 4.548 million ounces of silver at an average gold grade of 0.88 g/t. Indicated resources increased 61 percent from the initial study conducted the previous year.

The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "RR". The Company is a reporting issuer in British Columbia and Alberta.

Additional information on the Company is available on SEDAR at www.sedar.com.

CORPORATE ACTIVITIES

2009 Exploration Highlights

The Company's 2009 NI 43-101 compliant resource estimate was prepared by SRK Consulting Ltd. ("SRK") and in May 2009, the Company announced, at a 0.4 g/t Au block cut-off, *indicated* resources totaled 2.225 million ounces of gold and 3.375 million ounces of silver at an average gold grade of 1.24 g/t, and *inferred* resources totaled 1.807 million ounces of gold and 4.548 million ounces of silver at an average gold grade of 0.88 g/t. (see news release dated May 27, 2009). Since mid-December 2008 (the drilling cutoff date for the 2009 report) to December 31, 2009, the Company has drilled 122 holes which will be added to its updated resource calculation, expected to be completed by SRK in the first quarter of 2010.

Corporate Highlights:

- On November 2, 2009, the Company announced the closing of a private placement of 2,924,500 flow-through common shares at \$2.82 per share for gross proceeds of \$8,247,090. In connection with the offering, the Agents received a cash commission of \$494,825.

- On December 11, 2009, the Company announced appointment of Garrett Macdonald as the Company's Vice-President Operations. Mr. Macdonald's experience has involved large open pit mining operations, large civil construction and continuing improvement to underground operations. Mr. Macdonald is a mining engineer and has an MBA from the Richard Ivey School of Business; and
- On February 1, 2010, the Company announced that it entered into an agreement with a syndicate of underwriters (the "Underwriters"), to sell an aggregate of 8,082,000 units ("Units"), priced at \$4.95 per Unit, for gross proceeds of \$40,005,900 on a bought deal private placement basis (the "Offering"). Each Unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant will entitle the holder to acquire one additional Common Share at a price of \$7.10 per share for a period of twenty-four months following the closing of the Offering. The Underwriters also have the option to increase the size of the Offering by up to an additional 2,022,000 Units (the "Underwriters' Option"), for aggregate gross proceeds under the Offering of \$50,014,800 if the Underwriters' Option is exercised in full.

As of December 31, 2009 the Company had approximately \$20 million in its treasury. The additional funds raised in February 2010 are expected to allow the Company to accelerate both its exploration drilling program and pre-development studies.

PROPERTY HIGHLIGHTS

Rainy River Project

In June 2005, the Company acquired, from Nuinsco Resources Limited ("Nuinsco"), the right to earn a 100% interest in the Rainy River Project consisting of 17,252.18 acres (6,981.71 hectares) situated along a 25 kilometre segment of an under-explored and poorly exposed greenstone belt in Ontario. Prior to the purchase agreement, Nuinsco had completed 217 diamond drill holes (49,515 metres) and 597 reverse circulation ("RC") holes in the Richardson Township area of the project and had discovered and partially defined two gold zones, the 17 and 433, under approximately 23 metres of glacial till within an auriferous 6 km² caldera sequence consisting of pyritized felsic volcanic rocks. The polymetallic, gold-rich volcanogenic sulphide mineralization appears to be geologically similar to the Bousquet area gold deposits in Quebec. The Rainy River Project was acquired by the Company because management believed the potential for expanding the 17 and 433 Zones and discovering other, similar gold zones was high.

Following a comprehensive due-diligence study of the historical drill core and a compilation of all technical data available for the Project, the Company initiated a two-pronged exploration effort involving: (1) defining the economic potential and ultimate size of the 17 and 433 gold zones by systematic drilling along strike and down plunge; and (2) searching for new gold zones within the 6 km² auriferous caldera complex. Also, in the fall of 2005, a program of geological mapping, soil sampling, prospecting and limited diamond drilling was initiated by the Company near Off Lake in the northeast corner of the project area where the overburden cover is much thinner. This work discovered a 4 x 9 km intrusive complex, the Off Lake Felsic Dyke Complex, which contains porphyry-hosted gold mineralization compatible with the volcanic-hosted mineralization in Richardson Township.

In all, including the Nuinsco drilling, a total of five gold zones (ODM17, 433, Cap, Beaver Pond and West) had been discovered by December 2007, all within the 6 km² auriferous caldera complex. Of the five gold zones, three (ODM17, Beaver Pond, and West) occur along the 17 Gold Trend which has been traced by reverse circulation till and bedrock sampling methods for about 3 km in strike length. The 433 Zone lies north of and stratigraphically below the large ODM17 Zone whereas the Cap Zone is south of and stratigraphically above this zone. The Company's principal focus up to December 2007 was to define the ODM17 Zone with drill holes spaced 30 to 60 m apart over an 800 m strike length and to a vertical depth of 350 m and to drill the upper part of the Beaver Pond, 433 and Cap Zones as part of a NI 43-101 mineral

resource estimate. On February 28, 2008, the Company released the results of an independent NI 43-101 resource estimate prepared by Caracle Creek International Consulting (“CCIC”) for holes drilled to December 19, 2007 on the above zones. At a 0.50 g/t Au cut-off, the NI 43-101 gold resource estimate totalled 1,386,000 ounces of contained gold classified in the “indicated” category and 2,233,000 ounces of contained gold in the “inferred” category.

In early October 2007, the Company initiated a metallurgical test with SGS Laboratories in Lakefield, Ontario to determine gold recovery rates for the mineralization in the ODM17 Zone. The results, received in late January 2008, demonstrated that high gold recoveries are obtainable using a simple combination of gravity separation followed by flotation of the gravity tailings. Twenty-one composited 12 m half-core samples of three grade ranges were tested and an average of 94% of the gold was captured on the basis of approximately 25% recovery via gravity separation and the remainder by flotation of the gravity tailings. Additional testing is required to optimize final gold extraction from the pyritic flotation concentrate.

In early 2008, a new gold zone, the HS, was discovered between the ODM17 and 433 Zones. Throughout 2008 and 2009, the Company continued its aggressive diamond drilling program in Richardson Township, employing three to four drill rigs except for a brief reduction to two rigs in November-December 2008 at the height of the global economic downturn. A fifth rig was added in October, 2009. The drilling has focused on: (1) upgrading the resources of the ODM17, 433 and HS Zones from the inferred to indicated category by closing the hole spacing from 60 m to 30 m; (2) extending these resources to greater depth; and (3) identifying new gold zones within high-priority target areas generated by reverse circulation drilling, primarily along the western extension of the ODM17, 433 and Cap Trends. In March 2009, a deep drill hole, No. 329, intersected high-grade gold and silver mineralization at depth below the Beaver Pond Zone. In December 2009, the deep mineralization was extended up-plunge with high-grade intersections in Holes 402 and 446 including an exceptional 352.84 g/t (10.29 oz/t) gold over 6.0 metres in Hole 446 (news release dated January 18, 2010). In September 2009, the near-surface South Zone was discovered 200 metres southwest of the Cap Zone beside the conceptual open pit.

In June 2008, the Company engaged the services of SRK Consulting (“SRK”) to update the gold resources as drilling progresses. Also, Klohn Crippen Berger Ltd. (“KCBL”) was engaged to conduct environmental, socio-economic and geotechnical studies in the resource area. KCBL delivered a preliminary environmental/socio-economic report to the Company on February 5, 2009 and a preliminary geotechnical report on February 6, 2009; additional studies are ongoing. SRK delivered a Draft Memo to the Company on May 27, 2009, containing a revised NI 43-101 compliant resource estimate encompassing all drill holes completed and assayed to December 15, 2008. The full final report was received and publicly distributed on July 10, 2009. SRK’s study was more comprehensive and rigorous than CCIC’s initial study as considerable infill drilling had been completed and parameters such as open pit versus underground mining, pit slopes, gold recovery rates and mining and processing costs were considered. Based on a gold price of US\$800 per ounce with no allowance for silver credits, a cut-off grade of 0.4 grams of gold per tonne (“g/t”) for open pit mining to a maximum depth of 450 m and 3.0 g/t for underground mining below the pit, and a gold recovery rate of 85 percent, SRK estimated the following resources:

1. *Indicated* resources of 2.225 million ounces of gold and 3.375 million ounces of silver at an average gold grade of 1.24 g/t.
2. *Inferred* resources of 1.807 million ounces of gold and 4.548 million ounces of silver at an average gold grade of 0.88 g/t.

SRK’s resource estimate showed a 61 percent year-over-year increase in indicated resources from CCIC’s estimate, primarily through conversion of inferred resources through infill drilling. In addition, approximately 1.1 million ounces of gold mineralization at the same 0.4 g/t cut-off grade as the open pit resources were identified below and proximal to the proposed open pit. None of this additional mineralization presently qualifies as a mineral resource and there is no certainty that any of the mineralization will be converted to resources in the future because continuity and reasonable prospects for economic extraction have not been demonstrated. In the Company’s view, however, this additional mineralization is a good measure of exploration progress in the immediate area of the proposed pit and thus of the potential for increasing the indicated and inferred resources through further drilling.

In July 2009, the Company initiated a drainage and road construction program to improve access to low-lying areas of the property that were previously accessible for drilling only in the winter months. The program was completed in November and has significantly improved the efficiency of the drilling operations by allowing both the exploration and infill holes to be placed where they are most needed. As a result, new high-grade mineralization was discovered at the previously flooded beaver pond and the hole spacing on the ODM17 and 433 Zones was tightened to a uniform 30 m to a depth of 350 m as needed to upgrade inferred resources to indicated resources. With more targets now accessible, a fifth diamond drill was added in October. In addition, a 28-hole reverse circulation (RC) drilling program was completed in November to develop new gold targets for the diamond drills in the previously inaccessible areas

To help guide the resource drilling, the Company is working with SRK to update the resource figures and has commenced a scoping study to examine various open pit depths and underground mining options. This is expected to be followed by a pre-feasibility study later in calendar 2010. Environmental, geotechnical and metallurgical studies are ongoing. This work will be directed from a new office to be established in Toronto in the second quarter of 2010.

Since acquiring the property in 2005 through to drill shutdown for the Christmas break on December 19, 2009, the Company has completed a total of 446 diamond drill holes (approximately 231,000 metres or 231 kilometres) and 236 reverse circulation (RC) holes in the Richardson Township area, principally within the 6 km² mineralized core of the caldera. In addition, in the Off Lake area during the same period, the Company has drilled a total of 28 diamond drill holes totaling 6,816 metres and 23 RC holes to test targets identified by prospecting within the fertile Off Lake Felsic Dyke Complex. In the two areas combined, the Company has completed a grand total of 474 diamond drill holes totaling approximately 238,000 metres (238 kilometres) and 259 RC holes.

Included in the above totals are 48 diamond drill holes totaling 24,236 metres completed in Richardson Township during the three months ended December 31, 2009; no drilling was done in the Off Lake area. The new drilling included infill holes on the ODM17 and 433 Zones to further define the gold resources in these zones, and exploration holes in the following areas: (1) on the down-plunge extension of the western part of the ODM17 Zone where higher-grade mineralization occurs at depth; (2) on the newly discovered South Zone; and (3) both west of and down-plunge from the Beaver Pond Zone.

Exploration costs for the three months ended December 31, 2009 totaled \$3.9 million, of which \$2.7 million was for diamond drilling. The diamond drilling budget for the full fiscal year ending September 30, 2010, based on 65,600 m of drilling, is \$8.3 million, with a further \$6.4 million for geological, engineering and other planned expenditures including reverse circulation drilling.

In connection with the original purchase of the Project, the Company was obligated to pay a bonus of \$2,500,000 on commencement of commercial production from the property and a quarterly royalty of \$1 per ton of ore produced from the property, subject to an annual consumer price index adjustment. In December 2008, the Company completed an agreement with Nuinsco pursuant to which the Company purchased Nuinsco's right to the production tonnage royalty and the bonus payment due on the property. Under the terms of the agreement, the Company purchased Nuinsco's rights to the royalty and the bonus payment by making a cash payment of \$500,000 and issuing a total of 200,000 common shares valued at \$130,000.

The property also had a 3% NSR on production, the first 1% of which could be purchased for \$125,000. In May 2009, the Company completed an agreement with the underlying vendors pursuant to which the Company purchased the underlying vendors' right to the 3% NSR by making a cash payment of \$475,000 and issuing a total of 600,000 common shares valued at \$1,710,000. A portion of the property is subject to a 10% net profits interest.

As of December 31, 2009, the Company held, either directly or by way of option agreements, a 100% interest in a land package totalling 30,951 acres (12,531 hectares) in the Richardson Township and Off Lake areas. During 2009 a small parcel was optioned, which connects the two areas, and a few options and

claims in the Off Lake area were dropped. Options to acquire a 60% interest in peripheral properties held by Bayfield Ventures Corp. and Western Warrior Resources Inc. were not renewed.

The above-described exploration and development plans are based on management's current assessment of the status of the Rainy River project and are subject to change as additional information such as new exploration results, updated resource estimates and results of the environmental study become available; readers are cautioned that actual exploration and development activities on the Company's Richardson Township properties may vary. (See the "Cautionary Notes" on page 10 of this MD&A for a more detailed discussion concerning forward-looking information.) In addition, the Company's ongoing exploration and development plans are subject to a number of risks and uncertainties. (See the discussion under "Risks and Uncertainties" on page 5 of this MD&A for a more detailed discussion of the principal risk factors affecting the Company's business.)

All exploratory work, including all scientific and technical disclosures related to the Rainy River Project in southwest corner of northern Ontario and the Mud Creek Project in Minnesota described below, is carried out under the supervision of Mr. Stuart A. Averill, P.Geo., a Qualified Person as defined under NI 43-101. The disclosure in this MD&A of the work performed has been prepared under the supervision of Stuart Averill, Vice-President Exploration.

Minnesota Gold Project (Mud Creek)

During the year ended in September 30, 2006, the Company acquired a 100% interest in certain mineral leases covering 1,725 acres in St. Louis County in northwestern Minnesota, U.S.A. referred to as the Mud Creek Property. Based on mineral tenure provisions in Minnesota, subject to performance and payment of rental, these mineral leases expire September 7, 2055.

During May 2006, a field crew from Overburden Drilling Management Limited ("ODM") of Nepean, Ontario collected a total of 70 till samples on the Mud Creek Property. The till samples were transported to ODM's laboratory in Nepean for processing. The initial sampling identified four new, distinct, gold-grain anomalies which are well-removed from previously known gold occurrences. One anomaly was of particular interest since it appeared to be down-ice from a large, previously unexplored, mineralized quartz-feldspar porphyry. Further closely-spaced till sampling combined with systematic prospecting was carried out in October 2006.

A report prepared by ODM, in July 2007, recommended that the property be flown by an airborne EM and magnetic survey, followed by 5,000 metres of diamond drilling to test a gold-bearing porphyry complex located in Section 6 of the property. Due to the emphasis on the resource delineation at the Company's signature Ontario property, no exploration has been conducted on the Mud Creek Property since 2006. However, the airborne survey is planned for Q2 2010 with diamond drilling to follow in Q3.

RISKS AND UNCERTAINTIES

In addition to the usual risks associated with an investment in a business in the exploration stage of development, management and the directors of the Company believe that, there are particular risk factors that should be considered in any evaluation of the Company. An investment in the Company may not be suitable for all investors. Readers are urged to review the detailed disclosure concerning the material risks and uncertainties associated with the Company's business set out in its annual MD&A dated December 11, 2009 which is available on SEDAR under the Company's filer profile (www.sedar.com).

RESULTS OF OPERATIONS

For the three month period ended December 31, 2009, the Company recorded a net loss of \$944,614 (\$0.02 per share) compared to a net loss of \$462,725 (\$0.01 per share) for the comparative period of 2008. The increase in loss is due to increases in salaries and benefits of \$174,695, a reduction in interest income of \$166,572, an increase in stock-based compensation of \$349,307, an increase in consulting fees of \$83,092 and an increase in travel expenses of \$54,407 partially offset by a decrease in unrealized loss on marketable securities of \$105,816 and an increase in future income tax recovery of \$291,000.

The interest income decreased when compared to the previous year as a result of less funds being available for short-term investing and generally significantly lower interest rates.

The \$349,307 increase in stock-based compensation expense for the three month period ended December 31, 2009 resulted from the recording of stock-based compensation expense over the vesting periods of previously granted or re-priced options during the period. Fewer stock options, 250,000 were granted during the current period compared to 1,000,000 in the 2008 period.

Expenses other than stock-based compensation increased in the three month period ended December 31, 2009 compared to the corresponding period in 2008, primarily due to increases in salaries and benefits of \$174,695, resulting from the hiring of a new president and CEO and a Vice President Operations, consulting fees of \$83,092, resulting from the hiring of additional management positions at head office and travel costs of \$54,407.

The decrease in unrealized loss on marketable securities reflects the sum of the changes in market value of the securities in both the current and prior year periods and the increase in the future income tax recovery relates to the future tax value of losses incurred during the period.

SUMMARY OF QUARTERLY RESULTS

Quarter	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008
Interest and miscellaneous income	\$71,194	\$157,748	\$123,304	\$104,004	\$237,766	\$278,870	\$312,378	\$394,237
Realized and unrealized gain (loss) on marketable securities	(\$73,615)	(\$39,600)	\$100,513	(\$16,745)	(\$179,431)	(\$145,020)	\$42,930	\$38,670
Stock-based compensation expense	\$596,607	\$420,907	\$482,669	\$1,475,246	\$247,300	\$545,766	\$208,266	-
Expenses, net of stock-based compensation	\$623,586	\$596,716	\$392,403	\$387,412	\$260,760	\$390,314	\$318,067	\$359,967
Future income tax recovery (expense)	\$278,000	\$47,000	\$113,000	\$74,000	(\$13,000)	(\$25,000)	\$5,000	\$325,000
Income (loss) from continuing operations and net income (loss)	(\$944,614)	(\$852,475)	(\$538,255)	(\$1,701,399)	(\$462,725)	(\$777,230)	(\$166,025)	\$397,940
Basic and diluted earnings (loss) per share	(\$0.016)	(\$0.016)	(\$0.009)	(\$0.030)	(\$0.008)	(\$0.013)	(\$0.003)	\$0.006

On a quarter-by-quarter basis, earnings / loss can fluctuate significantly due to the timing of stock option grants, realized and unrealized gains/losses on marketable securities and the accounting for future income taxes primarily for flow-through expenditures renounced.

General and administrative costs have generally been within 10% of our expected cost over the last six quarters, with the exception of the first quarter of fiscal 2009. The first quarter of fiscal 2009 was lower than planned because of reduced travel expenditures and general office expenses in response to the global economic crisis. General and administrative costs for the quarter ended September 30, 2009 were higher than the annual average because of the hiring of a new President and CEO, and the accrual for the year-end audit expense of \$65,000. As a result of recent hires, management expects general and administrative costs to remain at a level similar to the amounts incurred in each of the last two quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a working capital position of \$19,515,738 at December 31, 2009, compared to \$16,605,455 at September 30, 2009 and \$20,322,202 at June 30, 2009. The working capital position at December 31, 2009 includes cash of \$10,115,080 and short-term investments of \$10,199,375. The Company does not have any asset-based commercial paper investments.

During the three months ended December 31, 2009, the Company issued 2,965,500 common shares for \$7,696,815 in net cash proceeds. 2,924,500 common shares at \$2.82 per share were issued pursuant to a flow through private placement for net proceeds of \$7,614,815 and 41,000 common shares were issued pursuant to the exercise of stock options for proceeds of \$82,000.

The Company incurred \$4,439,273 on mineral property acquisition and exploration costs, \$26,256 on equipment purchases and used \$594,130 before working capital changes on operations during the period.

At December 31, 2009, accounts receivable increased by \$62,659 to \$236,170 compared to \$173,511 at September 30, 2009. The December 31, 2009 receivables are comprised of goods and services tax receivable of \$212,587 and other receivables of \$23,583. At September 30, 2009, accounts receivable was comprised of goods and services tax receivable of \$155,320 and other receivables of \$18,191.

At December 31, 2009, accounts payable and accrued liabilities decreased by \$253,225 to \$1,226,696 compared to \$1,479,921 at September 30, 2009. The decrease is the result of decreased exploration costs due to a Christmas shut down at end of the quarter causing fewer unpaid invoices from several of our larger contractors and suppliers.

Management believes the Company has adequate working capital to meet its property maintenance/agreement costs, to meet its working capital requirements and to carry out exploration on the Rainy River Project and other properties over the next fiscal year. The Company expects its average monthly exploration costs to be approximately \$1,300,000 per month during fiscal 2010 compared to approximately \$900,000 per month for fiscal 2009, while its cash general and administrative expenditures are expected to average approximately \$185,000 per month for the second quarter of fiscal 2010, increasing to approximately \$340,000 per month early in the third quarter with the addition of a Toronto, Ontario office and related personnel, compared to approximately \$136,000 per month for fiscal 2009. Depending on the development of the business, the Company may need to raise additional cash for working capital or other expenditures. Presently, the Company has no revenues and obtains its cash requirements through private placements, the exercise of options and warrants, if any, and the sale of available investments and marketable securities.

OFF BALANCE SHEET ARRANGEMENTS

The Company is required to make certain cash and share option payments and incur exploration costs to maintain certain of its mineral properties in good standing. These payments and costs are at the Company's discretion and are based upon available financial resources and the exploration merits of the mineral properties which are evaluated on a periodic basis.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended December 31, 2009, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$30,000 (December 31, 2008 - \$30,000) to a company controlled by Nelson W. Baker, Vice-Chair of the Board of Directors and a director who is formerly the Company's President and Chief Executive Officer;
- (b) paid or accrued consulting fees of \$15,000 (December 31, 2008 - \$15,000) to a company controlled by James G. Grinnell, the Chief Financial Officer;
- (c) paid or accrued consulting fees, included in exploration costs, of \$40,195 (December 31, 2008 - \$15,764) and other consulting fees of \$30,000 (December 31, 2008 - \$Nil) to a company controlled by Stuart Averill, the Vice President, Exploration, who is also a director; and
- (d) paid or accrued consulting fees of \$30,000 (December 31, 2008 - \$Nil) to a company controlled by Gerald J. Shields the Vice President, Administration; who is also a director.

As at December 31, 2009, accounts payable and accrued liabilities includes \$13,898 due to related parties (September 30, 2009 - \$18,985).

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

INVESTOR RELATIONS

During the three month period ended December 31, 2009, the Company paid or accrued for promotion and investor relations services a total of \$51,743 (2008 - \$34,382).

SUBSEQUENT EVENTS

Subsequent to December 31, 2009, the Company:

- a) issued 793,165 common shares on exercise of stock options for proceeds of \$570,330; and
- b) announced that it entered into an agreement with a syndicate of underwriters (the "Underwriters"), to sell an aggregate of 8,082,000 units ("Units"), priced at \$4.95 per Unit, for gross proceeds of \$40,005,900 on a bought deal private placement basis (the "Offering"). Each unit is comprised of one common share (a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant will entitle the holder to acquire one additional Common Share at a price of \$7.10 per share for a period of twenty-four months following the closing of the Offering. The Underwriters also have the option to increase the size of the Offering by up to an additional 2,022,000 Units (the "Underwriters' Option"), for aggregate gross proceeds under the Offering of \$50,014,800 if the Underwriters' Option is exercised in full. Completion of the Offering is subject to TSX-V acceptance.

PROPOSED TRANSACTIONS

There were no further or unreported proposed transactions as at February 9, 2010.

CHANGES IN ACCOUNTING POLICIES

New accounting pronouncements – to be applied

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that IFRS will replace Canadian Generally Accepted Accounting Principles (“GAAP”) for publicly-listed companies for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be October 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended September 30, 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements has not yet been determined.

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-Controlling Interests”, which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently.

FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, short term investments, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. Marketable securities are adjusted to fair value at each reporting period.

The Company is not subject to significant interest and credit risk arising from these instruments and the Company does not use any derivative financial instruments.

Foreign Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars; however, management believes the risk is not currently significant as less than 0.1% of the Company’s assets and none of its liabilities as at December 31, 2009 are denominated in United States Dollars.

Interest Rate Risk

The Company has cash balances, short-term investments and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. In addition to cash in interest-bearing demand deposits with banks of \$10,115,080 (September 30, 2009 - \$7,562,591), the Company has \$10,000,000 (September 30, 2008 - \$10,000,000) in interest-bearing investment-grade short-term investments. A 1% change in interest rates would have an effect of approximately \$202,000 on interest income for the fiscal year.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at February 9, 2010, the Company had the following common shares, warrants and stock options outstanding:

Common Shares	61,020,555
Bonus Shares committed	50,000
Warrants	-
Stock Options	3,990,835
Fully diluted shares outstanding	65,061,390

CAUTIONARY NOTES

Certain statements in this document, including statements which may contain words such as "could", "expect", "believe", "will", and similar expressions, and statements related to matters that are not historical facts, are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties, including those set out herein, which may cause the actual results, performances, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

These unknown risks and uncertainties include, among other things, financial results, market and industry expectations, the mineral exploration industry, general economic, business and political conditions, loss or addition of key employees, stock market volatility, changes in laws and regulations, the Company's ability to compete successfully, adapt to changing industry standards and other factors.

All forward-looking statements in this document are based on management's beliefs, intentions and expectations with respect to future events and are subject to certain risks, uncertainties and assumptions as of the date of this MD&A. In light of the many risks and uncertainties that may cause future results to differ materially from those expected, the Company cannot give assurance that the forward-looking statements contained in this document will be realized. Forward-looking statements are not guarantees of future performance. The Company disclaims any intention or obligation to update or revise its forward-looking statements whether as a result of new information, future events or otherwise except as required by applicable securities law.