

**RAINY RIVER RESOURCES LTD.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Stated in Canadian Dollars)**  
**FOR THE THREE MONTHS ENDED**  
**DECEMBER 31, 2009**

**(Unaudited)**

**RAINY RIVER RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

**ASSETS**

	<u>December 31 2009</u>	<u>September 30 2009</u>
<b>CURRENT</b>		
Cash	\$ 10,115,080	\$ 7,562,591
Short-term investments (Note 3)	10,199,375	10,143,311
Marketable securities (Note 4)	84,785	158,400
Receivables	236,170	173,511
Prepaid expenses	107,024	47,563
	<u>20,742,434</u>	<u>18,085,376</u>
<b>NON-CURRENT</b>		
Equipment (Note 5)	203,736	191,806
Mineral properties (Note 6)	52,116,350	47,734,155
	<u>\$ 73,062,520</u>	<u>\$ 66,011,337</u>

**LIABILITIES**

<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,226,696	\$ 1,479,921
<b>NON-CURRENT</b>		
Future income taxes (Note 10)	<u>767,000</u>	<u>1,045,000</u>
	<u>1,993,696</u>	<u>2,524,921</u>

**SHAREHOLDERS' EQUITY**

Share capital (Note 7)	78,395,818	70,354,790
Contributed surplus (Note 7)	7,660,679	7,174,685
Deficit	<u>(14,987,673)</u>	<u>(14,043,059)</u>
	<u>71,068,824</u>	<u>63,486,416</u>
	<u>\$ 73,062,520</u>	<u>\$ 66,011,337</u>

**Basis of presentation (Note 1)**  
**Commitment to issue shares (Note 7 (d))**  
**Subsequent events (Note 14)**

**APPROVED BY THE DIRECTORS:**

*“Dale C. Peniuk”*

**Dale C. Peniuk, Director**

*“Raymond W. Threlkeld”*

**Raymond W. Threlkeld, Director**

*The accompanying notes are an integral part of these consolidated financial statements.*

**RAINY RIVER RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**

**FOR THE THREE MONTHS ENDED DECEMBER 31**

**(Unaudited)**

	<b>2009</b>	<b>2008</b>
<b>EXPENSES</b>		
Amortization	\$ 14,326	\$ 13,724
Audit and legal	7,806	20,711
Consulting	137,092	54,000
Office and miscellaneous	44,982	29,109
Promotion and investor relations	51,743	34,382
Regulatory and filing fees	41,783	13,170
Rent	17,212	16,124
Salaries and benefits	245,678	70,983
Stock-based compensation (Note 7c)	596,607	247,300
Travel	62,964	8,557
<b>LOSS BEFORE OTHER ITEMS AND INCOME TAXES</b>	<b>(1,220,193)</b>	<b>(508,060)</b>
<b>OTHER ITEMS</b>		
Interest income	71,194	237,766
Unrealized loss on marketable securities	(73,615)	(179,431)
	<b>(2,421)</b>	<b>58,335</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,222,614)</b>	<b>(449,725)</b>
Future income tax recovery (expense)	278,000	(13,000)
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(944,614)</b>	<b>(462,725)</b>
<b>DEFICIT, BEGINNING OF THE PERIOD</b>	<b>(14,043,059)</b>	<b>(10,488,205)</b>
<b>DEFICIT, END OF THE PERIOD</b>	<b>(\$14,987,673)</b>	<b>(\$10,950,930)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>59,154,488</b>	<b>56,469,955</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**RAINY RIVER RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE THREE MONTHS ENDED DECEMBER 31**

**(Unaudited)**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (944,614)	\$ (462,725)
Items not involving cash:		
Amortization	14,326	13,724
Unrealized loss on marketable securities	73,615	179,431
Interest accrual on short-term investments	(56,064)	(94,388)
Stock-based compensation	596,607	247,300
Future income tax (recovery) expense	(278,000)	13,000
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	37,453	12,718
Receivables	(62,659)	14,277
Prepaid expenses	(59,461)	2,041
	<u>(678,797)</u>	<u>(74,622)</u>
Net cash flows provided by (used in) operating activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on issue of share capital	8,329,090	-
Share issue costs	(632,275)	-
Shares purchased under issuer bid	-	(1,122,529)
	<u>7,696,815</u>	<u>(1,122,529)</u>
Cash flows provided by (used in) financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties, net of changes in accounts payable and accrued liabilities	(4,439,273)	(4,131,728)
Purchase of equipment	(26,256)	(19,523)
	<u>(4,465,529)</u>	<u>(4,151,251)</u>
Cash flows used in investing activities		
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	2,552,489	(5,348,402)
Cash - beginning of period	<u>7,562,591</u>	<u>21,687,369</u>
<b>CASH - END OF PERIOD</b>	<u>\$ 10,115,080</u>	<u>\$ 16,338,967</u>

Supplemental disclosure with respect to cash flows (Note 9)

*The accompanying notes are an integral part of these consolidated financial statements.*

**RAINY RIVER RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended December 31, 2009**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial information included herein is presented on a comparative and consistent basis showing the figures for the corresponding periods in the preceding year. The preparation of these interim consolidated financial statements is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of management, the Company's interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the financial position and the results of operations and cash flows for the interim periods presented.

**2. SIGNIFICANT 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 Canadian Institute of Chartered Accountants ("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.

**3. SHORT-TERM INVESTMENTS**

At December 31, 2009, short-term investments consist of \$10,000,000 (September 30, 2009 - \$10,000,000) in guaranteed investment certificates plus accrued interest of \$199,375 (September 30, 2009 - \$143,311) with an average interest yield of 2.26%, purchased on February 12, 2009 and maturing on February 12, 2010.

**4. MARKETABLE SECURITIES**

As at December 31, 2009 and September 30, 2009 marketable securities are stated at fair value and consist of shares in publicly traded companies with an original cost at December 31, 2009 of \$78,881 (September 30, 2009 - \$78,881).

**RAINY RIVER RESOURCES LTD.**  
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**5. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated</b>	<b>Net Book</b>
	\$	Amortization	Value
		\$	\$
<b>December 31, 2009</b>			
Computer equipment	217,350	110,282	107,068
Office furniture and equipment	55,953	33,111	22,842
Field equipment	173,451	99,625	73,826
	<b>446,754</b>	<b>243,018</b>	<b>203,736</b>
<b>September 30, 2009</b>			
Computer equipment	201,462	103,144	98,318
Office furniture and equipment	55,953	31,909	24,044
Field equipment	163,083	93,639	69,444
	420,498	228,692	191,806

**6. MINERAL PROPERTIES**

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

**a) Rainy River Property, Ontario**

The Company holds a 100-percent interest in the Rainy River property, located in the southwest corner of northern Ontario.

At the time of original acquisition, 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 Resources Limited ("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 had a 3% net smelter returns royalty ("NSR") on production. 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. Under the terms of the agreement, the Company purchased the underlying vendors rights to the 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 also subject to a 10% net profits interest.

The Company has entered into several additional property option agreements in the Rainy River District which, together with the aforementioned property, make up the entire Rainy River Property.

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**6. MINERAL PROPERTIES (Cont'd)**

During the period from June 2005 to December 31, 2009, the Company entered into various agreements whereby the Company has an option to earn a 100% interest, subject to a 2% NSR (3% on one property), in certain patented mineral rights in various townships in the Rainy River District, by making cash payments totalling \$3,045,000 (\$1,778,610 paid) and issuing a total of 1,529,500 common shares (1,024,500 issued at a total value of \$3,013,650) over the period to March 2012. Upon expiry of the option period on one of the properties, on the fifth anniversary date of the agreement (June 2010), the Company is required to make annual advance royalty payments of \$30,000 for a three year period, totalling \$90,000.

During fiscal 2008 and 2009, the Company also paid a total of \$185,000 and issued 75,000 shares (issued at total value of \$259,050) in connection with four option agreements entered into during fiscal 2008 that were terminated in 2009.

During the year ended September 30, 2009, the Company completed the purchase of surface and mineral rights to two land parcels in Richardson Township for \$75,882.

The details of the costs incurred on the Company's Rainy River Property are as follows:

	<b>Three months ended December 31 2009</b>	<b>Year ended September 30 2009</b>
<b>Acquisition costs</b>		
Opening balance	\$ 12,236,623	\$ 8,088,183
Additions		
Shares issued	233,600	2,401,100
Property option payments	200,000	658,000
Royalty and bonus purchase	-	500,000
NSR purchase	-	475,000
Legal costs	-	17,228
Staking costs	-	21,230
Land rights purchase	-	75,882
	<u>433,600</u>	<u>4,148,440</u>
Total acquisition costs	<u>12,670,223</u>	<u>12,236,623</u>
<b>Exploration costs</b>		
Opening balance	35,372,935	24,860,578
Additions		
Compilation and analysis	311,272	1,459,054
Drilling	2,829,514	6,317,843
Equipment rental	12,779	73,283
Field technicians and expenses	291,692	779,877
Geologists and consultants	163,432	1,060,277
Preliminary geo-technical studies	128,700	168,799
Site office preparation	43,355	68,276
Socio-environmental baseline studies	136,052	460,603
Travel and subsistence	29,513	124,345
	<u>3,946,309</u>	<u>10,512,357</u>
Total exploration costs	<u>39,319,244</u>	<u>35,372,935</u>
<b>Total costs – Rainy River Property</b>	<b>\$ 51,989,467</b>	<b>\$ 47,609,558</b>

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**6. MINERAL PROPERTIES (Cont'd)**

**b) Mud Creek Property**

During the year ended in September 30, 2006, the Company acquired a 100% interest in certain mineral leases in St. Louis County in northern 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 in September 2055.

The details of the costs incurred on the Company's Mud Creek Property are as follows:

	<b>Three months ended December 31 2009</b>	<b>Year ended September 30 2009</b>
<b>Acquisition costs</b>		
Opening balance	\$ 17,685	\$ 17,685
Additions	-	-
Total acquisition costs	17,685	17,685
<b>Exploration costs</b>		
Opening balance	106,912	90,553
Additions		
Geological consulting	-	1,006
Lease maintenance costs	2,286	15,353
	2,286	16,359
Total exploration costs	109,198	106,912
<b>Total costs – Mud Creek Property</b>	<b>\$ 126,883</b>	<b>\$ 124,597</b>
<b>Total all properties</b>	<b>\$ 52,116,350</b>	<b>\$ 47,734,155</b>

**RAINY RIVER RESOURCES LTD.**  
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**7. SHARE CAPITAL**

**(a) Share capital and contributed surplus**

**Authorized**

Unlimited common shares without par value

	Number of shares	Share Capital \$	Contributed Surplus \$
<b>Issued</b>			
Balance before treasury shares repurchased	57,747,190	70,023,764	4,747,364
Treasury shares repurchased in 2008	(627,800)	(1,146,346)	-
As at September 30, 2008	57,119,390	68,877,418	4,747,364
Stock-based compensation	-	-	2,626,122
Property option agreements	322,500	561,100	-
Royalty and bonus purchase (Note 6(a))	200,000	130,000	-
NSR purchase (Note 6(a))	600,000	1,710,000	-
Treasury shares repurchased and cancelled	(1,080,000)	(1,122,529)	-
Premium paid on treasury shares repurchased and cancelled	-	198,801	(198,801)
As at September 30, 2009	57,161,890	70,354,790	7,174,685
Stock-based compensation	-	-	596,607
Stock options exercised	41,000	82,000	-
Stock-based compensation on exercise of options		110,613	(110,613)
Property option agreements	100,000	233,600	-
Private placement	2,924,500	8,247,090	-
Share issue costs	-	(632,275)	-
As at December 31, 2009	60,227,390	78,395,818	7,660,679

**Private placement**

On November 2, 2009, the Company closed a brokered private placement raising gross proceeds of \$8,247,090 through the issuance of 2,924,500 flow-through shares at a price of \$2.82 per common share. The agents were paid a total of \$494,825 as financing fees. During the period ended December 31, 2009 the Company incurred \$2,782,900 of flow-through expenditures, leaving \$5,464,190 remaining to be incurred by December 31, 2010.

**Normal course issuer bid**

In August 2008, the Company filed with the TSX Venture Exchange (the "TSX-V") a notice of intention to make a normal course issuer bid (the "Bid") for certain of its common shares. Pursuant to the Bid, the Company announced its intention to purchase through the facilities of the TSX-V up to 2,000,000 of its outstanding common shares. It was the Company's intention that all shares purchased under the Bid would be cancelled. The Bid expired on August 29, 2009. The total shares repurchased under the Bid were 1,707,800 at a total cost of \$2,268,875. On January 23, 2009, the Company returned the 1,707,800 shares repurchased to its transfer agent for cancellation; share capital was reduced by \$2,070,000 and contributed surplus was charged with \$198,801, reflecting the amount of premium paid for the cancelled shares over the average equity value per share.

**RAINY RIVER RESOURCES LTD.**  
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**(Unaudited)**

**7. SHARE CAPITAL (Cont'd)**

**(b) Stock options and warrants**

The Company has a rolling stock option plan, whereby from time to time, at the discretion of the Board of Directors, stock options may be granted to directors, officers, employees and consultants. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

On February 10, 2009, the Company re-priced and extended the term for 515,000 stock options previously granted to non-insider employees that had an average exercise price of \$5.04 per share, expiring between March 19, 2009 and October 31, 2009, to have an exercise price of \$2.00 per share expiring February 10, 2014 and re-priced 60,000 stock options expiring between June 6, 2013 and August 7, 2013 that had an average exercise price of \$4.44 per share to have an exercise price of \$2.00 per share.

Stock options and share purchase warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number of warrants	Weighted Average Exercise Price \$	Weighted Average Number of options	Exercise Price \$
<b>Outstanding, September 30, 2008</b>	3,317,475	5.94	2,780,000	3.40
Granted/issued	-	-	3,400,000	1.66
Exercised	-	-	-	-
Expired/cancelled	(3,317,475)	5.94	(1,605,000)	3.75
<b>Outstanding, September 30, 2009</b>	-	-	<b>4,575,000</b>	<b>1.61</b>
Granted/issued	-	-	250,000	2.98
Exercised	-	-	(41,000)	2.00
Expired/cancelled	-	-	-	-
<b>Outstanding, December 31, 2009</b>	-	-	<b>4,784,000</b>	<b>1.68</b>
<b>Exercisable, December 31, 2009</b>	-	-	<b>2,234,000</b>	<b>1.34</b>

The following incentive stock options were outstanding at December 31, 2009:

	Number of shares	Exercise Price \$	Expiry Date
Stock options	500,000	0.28	March 17, 2010
	100,000	4.50	June 6, 2013 (2/3 not vested)
	50,000	2.00	June 6, 2013 (2/3 not vested)
	10,000	2.00	August 6, 2013 (2/3 not vested)
	1,000,000	0.83	November 11, 2013 (1/3 not vested)
	484,000	2.00	February 9, 2014 (2/3 not vested)
	1,890,000	2.00	February 9, 2014 (2/3 not vested)
	500,000	2.01	June 22, 2014 (2/3 not vested)
	250,000	2.98	December 14, 2014 (2/3 not vested)
	<b>4,784,000</b>	<b>1.68</b>	

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**7. SHARE CAPITAL (Cont'd)**

**(c) Stock-based compensation**

During the period ended December 31, 2009, the Company granted 250,000 (December 31, 2008 – 1,000,000) stock options with a total estimated fair value of \$495,586 (December 31, 2008 - \$449,277). The fair value per option granted was \$1.98 (December 31, 2008 - \$0.45). The vesting periods ranged from date of grant for a period of two years. For the period ended December 31, 2009, the Company recorded \$596,607 (December 31, 2008 - \$247,300) as stock-based compensation expense.

The fair value of stock options granted and re-priced is estimated on the grant date using the Black-Scholes option-pricing model. The weighted average assumptions used in the calculation of fair value are as follows:

	<b>Three months ended December 31, 2009</b>	<b>Three months ended December 31, 2008</b>
Risk free interest rate	1.94%	2.69%
Expected life	5 years	5 years
Expected stock volatility	83%	87%
Expected dividend yield	Nil	Nil

**(d) Commitment to issue shares**

In June 2009, the Company agreed to issue 50,000 common shares as a signing bonus to the Company's new president and chief executive officer on June 22, 2010, being the first anniversary of the date of the appointment, provided the president and chief executive officer continues to be employed by the Company at that time.

**8. RELATED PARTY TRANSACTIONS**

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 the Vice-Chair of the Board of Directors 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 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 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 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.

**RAINY RIVER RESOURCES LTD.**  
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**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company did not pay cash for interest expense or income taxes for any of the periods presented.

For the three months ended December 31, 2009, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$1,030,888 as at December 31, 2009 (\$1,321,566 as at September 30, 2009).
- b) The issuance of common shares valued at \$233,600 related to mineral property option agreements.
- c) The recognition of a fair value component of \$110,613 in respect of options exercised.

For the three months ended December 31, 2008, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$437,042 as at December 31, 2008 (\$1,192,646 at September 30, 2008).
- b) The issuance of common shares valued at \$107,200 related to mineral property option agreements.
- c) The issuance of common shares valued at \$130,000 related to the purchase of royalty and bonus rights.

**10. INCOME TAXES**

A reconciliation of income tax expense (recovery) for the period ended December 31 at statutory rates with reported taxes follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Loss before income taxes	\$ (1,222,614)	\$ (449,725)
Expected income tax recovery	\$ (353,000)	\$ (135,000)
Non deductible expenses	198,000	133,000
Non-capital losses and financing costs	(123,000)	15,000
<b>Income tax expense (recovery)</b>	<b>\$ (278,000)</b>	<b>\$ 13,000</b>
Represented by:		
Income tax expense (recovery)	-	-
Future income tax expense (recovery)	\$ (278,000)	\$ 13,000

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**10. INCOME TAXES (Cont'd)**

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities as at December 31, 2009 and September 30, 2009 are as follows:

	<b>December 31, 2009</b>	<b>September 30, 2009</b>
Future income tax assets:		
Financing costs	\$ 393,000	\$ 284,000
Investment tax credit	1,482,000	1,411,000
Non-capital losses carried forward	1,299,000	1,134,000
Net capital losses carried forward	563,000	563,000
Equipment	58,000	54,000
	<u>3,795,000</u>	<u>3,446,000</u>
Valuation allowance	<u>(2,044,000)</u>	<u>(1,964,000)</u>
Net future income tax assets	<u>1,751,000</u>	<u>1,482,000</u>
Future income tax liabilities:		
Marketable securities	(1,000)	(10,000)
Mineral properties	<u>(2,517,000)</u>	<u>(2,517,000)</u>
	<u>(2,518,000)</u>	<u>(2,527,000)</u>
Net future income tax assets (liabilities)	<u>\$ (767,000)</u>	<u>\$ (1,045,000)</u>

Subject to certain restrictions, at December 31, 2009, the Company has operating losses of approximately \$5,197,000 available to reduce taxable income of future years. Unless utilized, these losses will expire through 2030. In addition, the Company has exploration and development expenditures of approximately \$39,416,000 available to reduce taxable income of future years. The Company has net capital loss carry forwards of approximately \$4,505,000.

**11. SEGMENTED INFORMATION**

The Company operates in one segment being the acquisition and exploration of mineral properties. All of the Company's assets are located in Canada, except for certain mineral property interests disclosed in Note 6.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)**

**Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and short-term investments. Management believes that the credit risk concentration with respect to cash and short-term investments is remote. Receivables are due primarily from a government agency.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at December 31, 2009, the Company had a cash balance of \$10,115,080 (September 30, 2009 - \$7,562,591) to settle current liabilities of \$1,226,696 (September 30, 2009 - \$1,479,921). All of the Company's financial liabilities are subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) 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, 2009 - \$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.

(b) 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.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

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**13. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and short-term investments.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**14. 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.