

RAINY RIVER RESOURCES LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Stated in Canadian Dollars)

FOR THE TWELVE MONTHS ENDED
September 30, 2011

(Unaudited)

RAINY RIVER RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	ASSETS	
	September 30, 2011	September 30, 2010
CURRENT		
Cash and cash equivalents (Note 8)	\$ 48,751,922	\$ 71,870,010
Short-term investments (Note 2)	63,784,749	-
Other receivables	1,136,310	668,754
Prepaid expenses	102,242	83,336
	113,775,223	72,622,100
NON-CURRENT		
Restricted cash (Note 2)	2,098,183	-
Investments (Note 3)	277,778	1,050,000
Buildings and equipment (Note 4)	1,228,528	454,347
Mineral properties (Note 5)	114,713,019	70,542,980
	232,092,731	144,669,427
	\$ 232,092,731	\$ 144,669,427
	LIABILITIES	
CURRENT		
Accounts payable and accrued liabilities	\$ 5,020,598	\$ 1,922,205
NON-CURRENT		
Future income taxes (Note 9)	4,260,000	978,000
	9,280,598	2,900,205
	\$ 232,092,731	\$ 144,669,427
	SHAREHOLDERS' EQUITY	
Share capital (Note 6)	236,467,640	151,052,582
Contributed surplus (Note 6)	20,868,318	10,946,580
Obligation to issue shares (Note 6)	-	114,300
Accumulated other comprehensive income (loss)	(194,444)	481,250
Deficit	(34,329,381)	(20,825,490)
	222,812,133	141,769,222
	\$ 232,092,731	\$ 144,669,427

Subsequent event (Note 11)

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 interim consolidated financial statements.

RAINY RIVER RESOURCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Unaudited)

	For the three months ended		For the twelve months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
EXPENSES				
Amortization	\$ 44,843	\$ 71,592	\$ 189,749	\$ 158,670
Audit and legal	248,298	131,663	585,963	211,898
Consulting	139,984	262,056	857,755	793,524
Office and miscellaneous	118,263	6,803	507,206	315,460
Promotion and investor relations	19,682	50,521	95,781	191,321
Regulatory and filing fees	23,158	15,213	172,355	136,986
Rent	62,484	51,286	240,032	108,293
Salaries and benefits	860,101	413,677	3,799,366	1,226,641
Stock-based compensation (Note 6c)	1,306,857	1,245,423	9,028,868	5,593,477
Travel	126,040	184,152	798,842	513,568
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	<u>(2,949,710)</u>	<u>(2,432,386)</u>	<u>(16,275,917)</u>	<u>(9,249,838)</u>
OTHER ITEMS				
Interest income	480,365	88,076	1,660,090	343,272
Unrealized loss on marketable securities	-	-	-	(79,519)
Gain on disposal of investments and marketable securities (Note 3)	-	-	456,464	5,904
	<u>480,365</u>	<u>88,076</u>	<u>2,116,554</u>	<u>269,657</u>
LOSS BEFORE INCOME TAXES	<u>(2,469,345)</u>	<u>(2,344,310)</u>	<u>(14,159,363)</u>	<u>(8,980,181)</u>
Future income tax recovery (Note 9)	<u>215,222</u>	<u>663,750</u>	<u>655,472</u>	<u>2,197,750</u>
LOSS FOR THE PERIOD	<u>(2,254,123)</u>	<u>(1,680,560)</u>	<u>(13,503,891)</u>	<u>(6,782,431)</u>
DEFICIT, BEGINNING OF THE PERIOD	<u>(32,075,258)</u>	<u>(19,144,930)</u>	<u>(20,825,490)</u>	<u>(14,043,059)</u>
DEFICIT, END OF THE PERIOD	<u><u>(\$34,329,381)</u></u>	<u><u>(\$20,825,490)</u></u>	<u><u>(\$34,329,381)</u></u>	<u><u>(\$20,825,490)</u></u>
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.03)	\$ (0.02)	\$ (0.17)	\$ (0.10)
Weighted average number of common shares outstanding	83,740,537	72,409,805	81,348,705	67,493,814

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

RAINY RIVER RESOURCES LTD.

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the three months ended		For the twelve months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Accumulated other comprehensive income, beginning of period	\$ -	\$ -	\$ 481,250	\$ -
Other comprehensive income (loss)				
Reclassification of unrealized gains, net of tax, on disposal of available-for-sale financial asset during the period	-	-	(481,250)	-
Unrealized gain (loss) on available-for-sale financial asset arising during the period, net of tax	(194,444)	481,250	(194,444)	481,250
Accumulated other comprehensive income (loss), end of period	<u>\$ (194,444)</u>	<u>\$ 481,250</u>	<u>\$ (194,444)</u>	<u>\$ 481,250</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	For the three months ended		For the twelve months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Loss for the period	\$ (2,254,123)	\$ (1,680,560)	\$ (13,503,891)	\$ (6,782,431)
Other comprehensive income (loss)				
Reclassification of unrealized gains, net of tax, on disposal of available-for-sale financial asset during the period	-	-	(481,250)	-
Unrealized gain (loss) on available-for-sale financial asset arising during the period, net of tax	(194,444)	481,250	(194,444)	481,250
Comprehensive loss for the period	<u>\$ (2,448,567)</u>	<u>\$ (1,199,310)</u>	<u>\$ (14,179,585)</u>	<u>\$ (6,301,181)</u>

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

RAINY RIVER RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended		For the twelve months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (2,254,123)	\$ (1,680,560)	\$ (13,503,891)	\$ (6,782,431)
Items not involving cash:				
Amortization	8,425	71,592	189,749	158,670
Gain on disposal of investments and marketable securities	-	-	(456,464)	(5,904)
Unrealized loss on marketable securities	-	-	-	79,519
Interest accrual on short-term deposits	(303,093)	(82,689)	(882,932)	(82,689)
Stock-based compensation	1,306,857	1,245,423	9,028,868	5,593,477
Future income tax recovery	(215,222)	(663,750)	(655,472)	(2,197,750)
Changes in non-cash working capital items:				
Accounts payable and accrued liabilities	(1,234,659)	177,378	1,246,283	192,332
Receivables	(121,417)	(356,704)	(467,556)	(495,243)
Prepaid expenses	30,312	(9,544)	(18,906)	(35,773)
Cash flows used in operating activities	<u>(2,782,920)</u>	<u>(1,298,854)</u>	<u>(5,520,321)</u>	<u>(3,575,792)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issue of share capital	140,225	20,598,495	88,772,981	85,115,303
Share issue costs	-	(1,314,746)	(3,904,024)	(5,446,643)
Cash flows provided by financing activities	<u>140,225</u>	<u>19,283,749</u>	<u>84,868,957</u>	<u>79,668,660</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral properties, net of changes in accounts payable and accrued liabilities	(9,189,001)	(6,928,941)	(36,913,170)	(21,175,023)
Short-term investments	-	82,689	(62,901,817)	10,226,000
Restricted cash	-	-	(2,098,183)	-
Proceeds on disposal of investments and marketable securities	-	-	956,464	84,785
Purchase of investments	(500,000)	(500,000)	(500,000)	(500,000)
Purchase of buildings and equipment	(320,443)	(163,832)	(1,010,018)	(421,211)
Cash flows used in investing activities	<u>(10,009,445)</u>	<u>(7,510,084)</u>	<u>(102,466,725)</u>	<u>(11,785,449)</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	<u>(12,652,139)</u>	<u>10,474,811</u>	<u>(23,118,088)</u>	<u>64,307,419</u>
Cash and cash equivalents- beginning of period	<u>61,404,061</u>	<u>61,395,199</u>	<u>71,870,010</u>	<u>7,562,591</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 48,751,922</u>	<u>\$ 71,870,010</u>	<u>\$ 48,751,922</u>	<u>\$ 71,870,010</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and twelve months ended September 30, 2011
(Unaudited)

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in Canada (“Canadian GAAP”) for interim financial statements.

On September 29, 2011, the Company filed a notice with the Ontario, Alberta and British Columbia Securities Commissions to change the fiscal year end of the Company from September 30 to December 31. As a result, these unaudited interim financial statements include the results of operations and cash flows of the Company for the three and twelve months ended September 30, 2011.

Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP have been condensed or excluded in these interim consolidated financial statements. As a result, these unaudited interim consolidated financial statements do not contain all disclosures required for annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements and notes thereto for the year ended September 30, 2010. These unaudited interim consolidated financial statements are prepared following accounting policies consistent with the Company’s audited annual consolidated financial statements and notes thereto for the year ended September 30, 2010.

All material adjustments which, in the opinion of management, are necessary for fair presentation of the results of the interim periods have been reflected in these financial statements. The results of operations for the three and twelve months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full fiscal year.

2. SHORT-TERM INVESTMENTS

At September 30, 2011, short-term investments represent guaranteed investment certificates with an average interest yield of 1.85% and a principal amount of \$65,000,000 plus accrued interest of \$882,932 (September 30, 2010 – \$Nil). The investment certificates were issued on January 7, 2011, and will mature on January 9, 2012. A portion (\$2,098,183) of the investment certificates is reported as restricted cash within non-current assets, as it is held by the Company’s bank as security for the following:

- \$2,040,582 for a letter of credit issued to the Ontario provincial government, relating to a permit application in respect of future environmental remediation costs arising from an advanced exploration project on the Rainy River Gold Project (September 30, 2010 – \$Nil). The permit process required that this letter of credit be posted before filing the project documentation with the Ministry of Northern Development, Mines and Forestry; and
- \$57,601 relating to Company credit cards (September 30, 2010 – \$Nil).

3. INVESTMENTS

At September 30, 2011, investments consist of shares of Northern Superior Resources Inc. (“Northern Superior”) with an original cost of \$500,000 (Note 5b). These investments are designated as available for sale and are reported at fair value, reflecting their quoted market value as at the balance sheet date. Unrealized gains (losses) arising from this treatment are included in other comprehensive income (loss), and reported net of tax, in the statement of comprehensive loss.

4. BUILDINGS AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
September 30, 2011			
Computer equipment	\$ 459,810	\$ 225,595	\$ 234,215
Field equipment	489,446	255,514	233,933
Office furniture and equipment	290,972	96,004	194,968
Project buildings	386,796	46,088	340,707
Leasehold improvements	224,705	-	224,705
Total	\$ 1,851,729	\$ 623,201	\$ 1,228,528

RAINY RIVER RESOURCES LTD.
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4. BUILDINGS AND EQUIPMENT (Cont'd)

	Cost	Accumulated Amortization	Net Book Value
September 30, 2010			
Computer equipment	\$ 302,155	\$ 152,897	\$ 149,258
Field equipment	354,804	171,988	182,816
Office furniture and equipment	184,751	62,478	122,273
Total	\$ 841,710	\$ 387,363	\$ 454,347

5. MINERAL PROPERTIES

	September 30, 2011	September 30, 2010
Rainy River Gold Project	\$ 107,710,738	\$ 70,027,892
TPK Property	6,762,324	300,000
Mud Creek Property	239,956	215,088
	\$ 114,713,019	\$ 70,542,980

a) Rainy River Gold Project, Ontario

The Company holds a 100% interest in the Rainy River Gold Project, located west of Fort Frances, in the southwest corner of northern Ontario.

A portion of the property is 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 Gold Project.

During the period from June 2005 to September 30, 2011, the Company entered into various agreements whereby the Company has an option to earn a 100% interest, subject to a 2% Net Smelter Return royalty (3% on one property), in certain patented mineral and surface rights in various townships in the Rainy River District, by making cash payments totaling \$3,658,500 (\$2,833,500 paid as at September 30, 2011) and issuing a total of 1,677,000 common shares (1,461,000 issued as at September 30, 2011 at a total value of \$6,856,295) over the period to June 2014. Upon expiry of the option period on one of the properties, on the fifth anniversary date of the related agreement (fiscal 2010), the Company is required to make annual advance royalty payments of \$30,000 for a three year period, totaling \$90,000 (\$60,000 paid as at September 30, 2011).

During fiscal 2008, 2009 and 2010, the Company also paid a cumulative total of \$250,000 and issued 112,500 shares (issued at total value of \$389,000) in connection with seven option agreements entered into during fiscal 2007 and 2008, which were terminated in 2009 and 2010.

During the twelve months ended September 30, 2011, the Company purchased the surface and mineral rights to property in Richardson Township for \$1,247,850 (2010 – \$1,162,346).

RAINY RIVER RESOURCES LTD.
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5. MINERAL PROPERTIES (Cont'd)

a) Rainy River Gold Project, Ontario

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

	September 30, 2011	September 30, 2010
Acquisition costs		
Opening balance	\$ 15,785,422	\$ 12,236,623
Additions in the period		
Property acquisition – shares issued	2,835,787	1,423,780
Other property acquisition costs	2,204,420	2,125,019
Total additions in the period	5,040,207	3,548,799
Ending balance – acquisition costs	20,825,629	15,785,422
Exploration costs		
Opening balance	54,242,470	35,372,935
Additions in the period		
Drilling and assaying	21,653,181	13,903,053
Technical, environmental and other studies	2,338,483	1,989,171
Other exploration costs	8,650,975	2,977,311
Total additions in the period	32,642,639	18,869,535
Ending balance – exploration costs	86,885,109	54,242,470
Cumulative costs –		
Rainy River Gold Project	\$ 107,710,738	\$ 70,027,892

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5. MINERAL PROPERTIES (Cont'd)

b) TPK Property, Ontario

Effective September 9, 2010, the Company entered into an agreement whereby Northern Superior granted the Company an option to earn a 51% interest in the eastern half of Northern Superior's 100% owned Ti-pa-haa-kaaning/Big Dam property in northwestern Ontario (the "TPK Property"). To earn its 51% interest, the Company must fund a total of \$9,400,000 in exploration expenses over a three year period (\$5,162,324 funded to September 30, 2011), make cash payments of \$300,000 (paid) upon receipt of regulatory approval and a further \$1,300,000 (paid), and complete three equal annual private placements of common shares of Northern Superior of \$500,000 each, for a total investment of \$1,500,000. The first \$500,000 private placement was completed in 2010, and the second was completed in July 2011.

The details of the costs incurred by the Company in respect of the TPK Property are as follows:

	September 30, 2011	September 30, 2010
Acquisition costs		
Opening balance	\$ 300,000	\$ -
<u>Additions in the period</u>		
Property option payments	1,300,000	300,000
Ending balance – acquisition costs	1,600,000	300,000
Exploration costs		
Opening balance	-	-
<u>Additions in the period</u>		
Exploration expenditures	5,162,324	-
Total additions in the period	5,162,324	-
Ending balance – exploration costs	5,162,324	-
Cumulative costs – TPK Property	\$ 6,762,324	\$ 300,000

c) Mud Creek Property, Minnesota

In September 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:

	September 30, 2011	September 30, 2010
Acquisition costs		
Opening balance	\$ 17,685	\$ 17,685
<u>Additions in the period</u>		
Ending balance – acquisition costs	17,685	17,685
Exploration costs		
Opening balance	197,403	106,912
<u>Additions</u>		
Survey and lease maintenance costs	24,868	90,491
Total additions in the period	24,868	90,491
Ending balance – exploration costs	222,271	197,403
Cumulative costs – Mud Creek Property	\$ 239,956	\$ 215,088

RAINY RIVER RESOURCES LTD.
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6. SHARE CAPITAL

a) Share capital and contributed surplus

Authorized

Unlimited common shares without par value

	Number of shares	Share capital \$	Contributed surplus \$	Obligation to issue shares \$
Issued				
As at September 30, 2009	57,161,890	70,354,790	7,174,685	-
Stock-based compensation	-	-	5,378,677	214,800
Stock options exercised	1,191,959	1,635,413	-	-
Fair value allocation on exercise of options	-	1,606,782	(1,606,782)	-
Fair value allocation on obligation shares issued	50,000	100,500	-	(100,500)
Warrants exercised	25,000	177,500	-	-
Property option agreements	302,000	1,423,780	-	-
Private placements	16,488,500	83,302,390	-	-
Share issue costs	-	(5,486,573)	-	-
Tax benefits of the renunciation of flow-through expenditures to shareholders	-	(2,062,000)	-	-
As at September 30, 2010	75,219,349	151,052,582	10,946,580	114,300
Stock-based compensation	-	-	11,409,862	194,700
Stock options exercised	599,568	1,571,328	-	-
Fair value allocation on exercise of options	-	1,488,124	(1,488,124)	-
Fair value allocation on obligation shares issued	50,000	309,000	-	(309,000)
Warrants exercised	1,716,500	12,187,150	-	-
Property option agreements	272,000	2,782,980	-	-
Private placement	5,930,000	75,014,500	-	-
Share issue costs, net of tax	-	(2,928,024)	-	-
Tax benefits of the renunciation of flow-through expenditures to shareholders	-	(5,010,000)	-	-
As at September 30, 2011	83,787,417	236,467,640	20,868,318	-

Private placements

On January 7, 2011, the Company closed a private placement of 5,930,000 common shares of the Company at a price of \$12.65 per share, for gross proceeds of \$75,014,500. In connection with the offering, the Company paid a total of \$3,750,725 as financing fees to the underwriters.

On September 8, 2010, the Company closed a flow-through private placement raising gross proceeds of \$20,041,000 through the issuance of 2,450,000 flow-through common shares at a price of \$8.18 per common share. The agents were paid a total of \$1,202,460 as financing fees. At September 30, 2011, the Company has incurred all of the flow-through expenditures agreed to be incurred by December 31, 2011 in connection with this flow-through private placement.

On February 25, 2010, the Company closed a brokered private placement raising gross proceeds of \$55,014,300 through the issuance of 11,114,000 units at a price of \$4.95 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$7.10 per common share until February 26, 2012. The Company paid a finance fee of \$3,300,858 in connection with the private placement.

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6. SHARE CAPITAL (Cont'd)

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 common shares at a price of \$2.82 per common share. The agents were paid a total of \$494,825 as financing fees. At September 30, 2010, the Company had incurred all of the flow-through expenditures agreed to be incurred by December 31, 2010, in connection with this flow-through private placement.

b) Stock options and warrants

The Company has a shareholder-approved, 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 shares at the date of the grant. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors. Warrants are generally issued in connection with certain private placement financings.

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

	<u>Stock options</u>		<u>Warrants</u>	
	Number of options	Weighted average exercise price \$	Number of warrants	Exercise price \$
Outstanding, September 30, 2009	4,575,000	1.61	-	-
Granted/issued	1,980,000	5.36	5,557,000	7.10
Exercised	(1,191,959)	1.37	(25,000)	7.10
Expired/cancelled	(143,334)	3.50	-	-
Outstanding, September 30, 2010	5,219,707	3.04	5,532,000	7.10
Granted/issued	2,230,000	11.78	-	-
Exercised	(599,568)	2.63	(1,716,500)	7.10
Expired/cancelled	(131,665)	12.65	-	-
Outstanding, September 30, 2011	6,718,474	5.79	3,815,500	7.10
Exercisable, September 30, 2011	4,717,499	4.08	3,815,500	7.10

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6. SHARE CAPITAL (Cont'd)

The following stock options and warrants were outstanding at September 30, 2011:

	Number of shares	Exercise price \$	Expiry Date	Exercisable
Stock options	100,000	4.50	June 6, 2013	100,000
	800,000	0.83	November 11, 2013	800,000
	1,535,136	2.00	February 9, 2014	1,535,136
	500,000	2.01	June 22, 2014	500,000
	250,000	2.98	December 11, 2014	166,667
	615,004	5.00	February 16, 2015	381,667
	120,000	6.09	April 7, 2015	70,000
	300,000	6.18	May 18, 2015	200,000
	400,000	6.75	June 17, 2015	266,667
	500,000	9.15	October 28, 2015	166,667
	1,528,334	12.65	January 10, 2016	509,445
	25,000	10.00	June 7, 2016	6,250
	45,000	10.00	August 15, 2016	15,000
	6,718,474			4,717,499
Warrants	3,815,500	7.10	February 26, 2012	3,815,500

Vesting of options may be accelerated under certain conditions.

c) Stock-based compensation

During the twelve months ended September 30, 2011, the Company granted 2,230,000 (2010 – 1,980,000) stock options with a total estimated fair value of \$12,471,387 (2010 - \$6,548,869). The fair value per option granted was \$5.59 (2010 - \$3.31). The vesting periods ranged from date of grant to a period of two years. For the twelve months ended September 30, 2011, the Company recorded a total of \$11,409,862 (2010 - \$5,378,677) as stock-based compensation expense from option grants and \$194,700 (2010 – \$214,800) related to its commitments to issue shares (Note 6d). Net of the \$2,575,694 capitalized to mineral properties, stock based compensation expense included in net loss for the period is \$9,028,868 (2010 - \$5,593,477).

During the three months ended September 30, 2011, the Company granted 45,000 (2010 – Nil) stock options with a total estimated fair value of \$236,890 (2010 - \$Nil). The fair value per option granted was \$5.26 (2010 - \$Nil). The vesting periods ranged from date of grant to a period of two years. For the three months ended September 30, 2011, the Company recorded a total of \$1,701,571 (2010 - \$1,167,523) as stock-based compensation expense from option grants and \$nil (2010 – \$77,900) related to its commitments to issue shares. Net of the \$394,714 (2010 - \$Nil) capitalized to mineral properties, stock based compensation expense included in net loss for the three-month period is \$1,306,857 (2010 - \$1,245,423).

The fair value of stock options granted 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:

	September 30, 2011	September 30, 2010
Risk free interest rate	2.23%	1.94%
Expected life	3.7 years	5 years
Expected stock volatility	71%	80%
Expected dividend yield	Nil	Nil

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6. SHARE CAPITAL (Cont'd)

d) Obligation to issue shares

In May 2010, the Company agreed to issue 50,000 common shares (valued at \$309,000) as a signing bonus to the Company's then new Vice President and Chief Financial Officer on May 18, 2011, being the first anniversary of the date of his appointment. This share issuance was approved by shareholders at the Company's Annual General Meeting of shareholders on April 6, 2011, and 50,000 common shares were issued on May 18, 2011. Upon issuance, \$309,000 was transferred from obligation to issue shares to share capital (Note 6a), reflecting the grant-date fair value.

7. RELATED PARTY TRANSACTIONS

During the twelve months ended September 30, 2011, the Company entered into transactions with related parties as follows:

- a) paid or accrued consulting fees of \$nil (2010 - \$90,000) to a company controlled by the former Vice-Chair of the Board of Directors who was formerly the Company's President and Chief Executive Officer;
- b) paid or accrued consulting and other fees, included in exploration costs, of \$365,505 (2010 - \$163,684) and consulting and termination fees of \$130,000 (2010 - \$120,000 in consulting fees) to a company controlled by the Company's former Vice President Exploration, who is also a director;
- c) paid or accrued consulting fees and bonus of \$331,345 (2010 - \$120,000 in consulting fees) to a company controlled by the Vice President and General Counsel, who is also a director; and
- d) paid or accrued directors fees of \$217,278 (2010 - \$78,500) to directors of the Company.

As at September 30, 2011, accounts payable and accrued liabilities includes \$nil due to related parties (September 30, 2010 - \$67,321).

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.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company did not pay cash for interest expense or income taxes for either of the twelve-month periods presented.

The cash and cash equivalents consist of:

	September 30, 2011	September 30, 2010
Cash	\$ 1,864,313	\$ 5,623,194
Guaranteed investment certificates	<u>46,887,609</u>	<u>66,246,816</u>
	<u>\$ 48,751,922</u>	<u>\$ 71,870,010</u>

For the twelve months ended September 30, 2011, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$3,383,693 as at September 30, 2011;
- b) The issuance of common shares valued at \$2,782,980 related to mineral property option agreements;
- c) The recognition of a fair value component of \$1,488,124 in respect of options exercised;
- d) The inclusion in mineral properties of capitalized amortization of project buildings, in the amount of \$46,088; and
- e) The recording of a reduction to share capital of \$5,010,000 on the renunciation of flow-through expenditures to shareholders and a corresponding increase to future income tax liability related thereto.

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8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Cont'd)

For the twelve months ended September 30, 2010, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$1,531,588 as at September 30, 2010;
- b) The issuance of common shares valued at \$1,423,780 related to mineral property option agreements;
- c) The recognition of a fair value component of \$1,606,782 in respect of options exercised; and
- d) The recording of a reduction to share capital of \$2,062,000 on the renunciation of flow-through expenditures to shareholders and a corresponding increase to future income tax liability related thereto.

9. INCOME TAXES

A reconciliation of income tax recovery for the three and twelve months ended September 30, 2011 and 2010, respectively, at statutory rates with reported taxes follows:

	Three months ended		Twelve months ended	
	September 30 2011	September 30 2010	September 30 2011	September 30 2010
Loss before income taxes	\$ (2,469,345)	\$ (2,344,310)	\$ (14,159,363)	\$ (8,980,181)
Expected income tax recovery	\$ 663,000	\$ 677,000	\$ 3,805,000	\$ 2,593,000
Non-deductible expenses	(351,000)	(383,000)	(2,308,000)	(1,687,000)
Financing costs and other	(96,778)	369,750	(841,528)	1,291,750
Income tax recovery	\$ 215,222	\$ 663,750	\$ 655,472	\$ 2,197,750
Represented by:				
Income tax recovery	-	-	-	-
Future income tax recovery	\$ 215,222	\$ 663,750	\$ 655,472	\$ 2,197,750

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9. 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 September 30, 2011 and September 30, 2010, respectively, are as follows:

	September 30, 2011	September 30, 2010
Future income tax assets:		
Financing costs	\$ 1,653,000	\$ 1,217,000
Investment tax credit	3,867,000	2,408,000
Non-capital losses carried forward	4,226,000	2,291,000
Net capital losses carried forward	506,000	562,000
Investments	28,000	-
Equipment	156,000	94,000
	<u>10,436,000</u>	<u>6,572,000</u>
<u>Valuation allowance</u>	<u>(4,401,000)</u>	<u>(2,902,000)</u>
<u>Net future income tax assets</u>	<u>6,035,000</u>	<u>3,670,000</u>
Future income tax liabilities:		
Investments	-	(69,000)
<u>Mineral properties</u>	<u>(10,295,000)</u>	<u>(4,579,000)</u>
	<u>(10,295,000)</u>	<u>(4,648,000)</u>
<u>Net future income tax liabilities</u>	<u>\$ (4,260,000)</u>	<u>\$ (978,000)</u>

Subject to certain restrictions, at September 30, 2011, the Company has operating losses of approximately \$16,903,000 (2010 - \$9,164,000) available to reduce taxable income of future years. Unless utilized, these losses will expire through 2031. In addition, the Company has exploration and development expenditures of approximately \$73,534,000 (2010 - \$50,547,000) available to reduce taxable income of future years. The Company also has net capital loss carry-forwards of approximately \$4,050,000 (2010 - 4,499,000).

The Company renounced certain deductions for Canadian exploration expenditures incurred and to be incurred on the Company's resource properties resulting in a future income tax liability and a charge against share capital in connection with the flow-through shares issued by it. As at September 30, 2011, the Company has incurred all of the \$20,041,000 flow-through expenditures agreed to be incurred by December 31, 2011.

10. 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 5c.

11. SUBSEQUENT EVENT

On October 5, 2011, the Company agreed to issue 50,000 common shares as a signing bonus to the Company's new Chief Operating Officer on the first anniversary of the commencement of his employment, provided that the Chief Operating Officer continues to be employed by the Company at that time. The Chief Operating Officer commenced employment with the Company on November 1, 2011.