

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

FOR THE NINE MONTHS ENDED
JUNE 30, 2010

(Unaudited)

RAINY RIVER RESOURCES LTD.
INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS

	June 30 2010	September 30 2009
CURRENT		
Cash and cash equivalents	\$ 61,395,199	\$ 7,562,591
Short-term investments (Note 3)	-	10,143,311
Marketable securities (Note 4)	-	158,400
Receivables	312,050	173,511
Prepaid expenses	73,792	47,563
	61,781,041	18,085,376
NON-CURRENT		
Equipment (Note 5)	362,107	191,806
Mineral properties (Note 6)	63,378,595	47,734,155
	\$ 125,521,743	\$ 66,011,337

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 2,142,953	\$ 1,479,921
NON-CURRENT		
Future income taxes (Note 10)	1,573,000	1,045,000
	3,715,953	2,524,921

SHAREHOLDERS' EQUITY

Share capital (Note 7)	130,737,968	70,354,790
Contributed surplus (Note 7)	10,075,852	7,174,685
Obligation to issue shares (Note 7)	136,900	-
Deficit	(19,144,930)	(14,043,059)
	121,805,790	63,486,416
	\$ 125,521,743	\$ 66,011,337

Basis of presentation (Note 1)
Commitments to issue shares (Note 7 (d))
Subsequent events (Note 12)

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.

INTERIM CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	For the three months ended		For the nine months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
EXPENSES				
Amortization	\$ 46,705	\$ 16,033	\$ 87,078	\$ 45,481
Audit and legal	(16,801)	16,469	80,235	75,617
Consulting	233,810	115,500	531,468	265,000
Office and miscellaneous	189,480	47,798	308,657	127,769
Promotion and investor relations	27,615	42,191	140,800	110,951
Regulatory and filing fees	20,604	16,960	121,773	43,156
Rent	22,793	16,340	57,007	47,900
Salaries and benefits	309,338	109,081	812,964	261,652
Stock-based compensation (Note 7(c))	2,271,431	482,669	4,348,054	2,205,215
Travel	143,650	12,031	329,416	63,049
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(3,248,625)	(875,072)	(6,817,452)	(3,245,790)
OTHER ITEMS				
Interest income	115,015	123,304	255,196	465,074
Unrealized loss on marketable securities	-	101,820	(79,519)	(94,356)
Gain (loss) on disposal of marketable securities	-	(1,307)	5,904	(1,307)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	115,015	223,817	181,581	369,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LOSS BEFORE INCOME TAXES	(3,133,610)	(651,255)	(6,635,871)	(2,876,379)
Future income tax recovery	201,000	113,000	1,534,000	174,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(2,932,610)	(538,255)	(5,101,871)	(2,702,379)
DEFICIT, BEGINNING OF THE PERIOD	(16,212,320)	(12,652,329)	(14,043,059)	(10,488,205)
DEFICIT, END OF THE PERIOD	<u>(\$19,144,930)</u>	<u>(\$13,190,584)</u>	<u>(\$19,144,930)</u>	<u>(\$13,190,584)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.05)
Weighted average number of common shares outstanding	72,409,805	56,692,275	65,572,318	57,123,709

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

RAINY RIVER RESOURCES LTD.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended		For the nine months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (2,932,610)	\$ (538,255)	\$ (5,101,871)	\$ (2,702,379)
Items not involving cash:				
Amortization	46,705	16,033	87,078	45,481
Loss (gain) on disposal of marketable securities	-	1,307	(5,904)	1,307
Unrealized loss (gain) on marketable securities	-	(101,820)	79,519	94,356
Interest accrual on short-term investments	-	1,075	-	209,049
Stock-based compensation	2,271,431	482,669	4,348,054	2,205,215
Future income tax recovery	(201,000)	(113,000)	(1,534,000)	(174,000)
Changes in non-cash working capital items:				
Accounts payable and accrued liabilities	36,595	(20,800)	14,954	(41,129)
Receivables	(49,044)	33,941	(138,539)	23,653
Prepaid expenses	54,441	(9,000)	(26,229)	15,893
Cash flows used in operating activities	<u>(773,482)</u>	<u>(247,850)</u>	<u>(2,276,938)</u>	<u>(322,554)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issue of share capital	319,492	-	64,516,808	-
Share issue costs	(8,939)	-	(4,131,897)	-
Shares purchased under issuer bid	-	-	-	(1,122,529)
Cash flows provided by (used in) financing activities	<u>310,553</u>	<u>-</u>	<u>60,384,911</u>	<u>(1,122,529)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral properties, net of changes in accounts payable and accrued liabilities	(5,533,208)	(3,128,268)	(14,246,082)	(9,495,680)
Short term investments	-	-	10,143,311	-
Proceeds on disposal of marketable securities	-	3,517	84,785	3,517
Purchase of equipment	<u>(141,415)</u>	<u>(7,350)</u>	<u>(257,379)</u>	<u>(40,366)</u>
Cash flows used in investing activities	<u>(5,674,623)</u>	<u>(3,132,101)</u>	<u>(4,275,365)</u>	<u>(9,532,529)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	<u>(6,137,552)</u>	<u>(3,379,951)</u>	<u>53,832,608</u>	<u>(10,977,612)</u>
Cash and cash equivalents - beginning of period	<u>67,532,751</u>	<u>14,089,708</u>	<u>7,562,591</u>	<u>21,687,369</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 61,395,199</u>	<u>\$ 10,709,757</u>	<u>\$ 61,395,199</u>	<u>\$ 10,709,757</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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended June 30, 2010
(Unaudited)

1. BASIS OF PRESENTATION

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

Amendment to Financial Instruments – Disclosures

The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (“IFRS”).

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that IFRS will replace Canadian 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 Company has not yet completed a full evaluation of the impact of the adoption of IFRS on its consolidated financial statements.

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 a standard 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 September 30, 2009, short-term investments consisted of \$10,000,000 in guaranteed investment certificates plus accrued interest of \$143,311 with an average interest yield of 2.26%, purchased on February 12, 2009 and maturing on February 12, 2010. Upon maturity on February 12, 2010, these funds were invested in cash and cash equivalents.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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4. MARKETABLE SECURITIES

During the nine month period ended June 30, 2010, shares in publicly traded companies were sold for proceeds of \$84,785. At September 30, 2009, marketable securities were stated at fair value and consisted of shares in publicly traded companies with an original cost of \$78,881.

5. EQUIPMENT

	Cost	Accumulated	Net Book
	\$	Amortization	Value
	\$	\$	\$
June 30, 2010			
Computer equipment	238,975	128,613	110,365
Office furniture and equipment	150,519	49,701	100,818
Field equipment	288,383	137,456	150,927
	677,877	315,770	362,107
September 30, 2009			
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% 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 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.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

6. MINERAL PROPERTIES (Cont'd)

During the period from June 2005 to June 30, 2010, 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 \$3,295,000 (\$1,953,610 paid) and issuing a total of 1,639,500 common shares (1,116,500 issued at a total value of \$3,530,330) over the period to June 2014. Upon expiry of the option period on one of the properties, on the fifth anniversary date of the agreement (fiscal 2010), the Company is required to make annual advance royalty payments of \$30,000 for a three year period, totalling \$90,000 (\$30,000 paid).

During fiscal 2008, 2009 and 2010, the Company also paid a total of \$210,000 and issued 82,500 shares (issued at total value of \$276,625) in connection with five option agreements entered into during fiscal 2007 and 2008 that were terminated in 2009 and 2010.

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.

During the period ended June 30, 2010, the Company completed the purchase of surface and mineral rights to two land parcels in Richardson Township for \$302,916.

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

	Nine months ended June 30 2010	Year ended September 30 2009
Acquisition costs		
Opening balance	\$ 12,236,623	\$ 8,088,183
Additions		
Shares issued	750,280	2,401,100
Property option payments	375,000	658,000
Royalty and bonus purchase	-	500,000
NSR purchase	-	475,000
Advance royalty payments	30,000	-
Legal costs	122,134	17,228
Staking costs	1,815	21,230
Land rights purchase	302,916	75,882
	<u>1,582,145</u>	<u>4,148,440</u>
Total acquisition costs	13,818,768	12,236,623
Exploration costs		
Opening balance	35,372,935	24,860,578
Additions		
Compilation and analysis	1,370,374	1,459,054
Drilling	8,920,315	6,317,843
Equipment rental	75,601	73,283
Field technicians and expenses	1,043,704	779,877
Geologists and consultants	791,781	1,060,277
Preliminary geotechnical studies	730,310	168,799
Site office preparation	49,728	68,276
Socio-environmental baseline studies	749,881	460,603
Mine waste and geotechnical review	94,412	-
Travel and subsistence	145,698	124,345
	<u>13,971,804</u>	<u>10,512,357</u>
Total exploration costs	49,344,739	35,372,935
Total costs – Rainy River Property	\$ 63,163,507	\$ 47,609,558

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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:

	Nine months ended June 30 2010	Year ended September 30 2009
Acquisition costs		
Opening balance	\$ 17,685	\$ 17,685
Additions	-	-
Total acquisition costs	17,685	17,685
Exploration costs		
Opening balance	106,912	90,553
Additions		
Geological consulting	440	1,006
Electromagnetic geotechnical survey	80,356	-
Lease maintenance costs	9,695	15,353
	90,491	16,359
Total exploration costs	197,403	106,912
Total costs – Mud Creek Property	\$ 215,088	\$ 124,597
Total all properties	\$ 63,378,595	\$ 47,734,155

c) TPK Property

During the period ended June 30, 2010, the Company entered into an agreement whereby Northern Superior Resources Inc. ("Northern Superior") has granted the Company an option to earn a 51% interest in the eastern half of Northern Superior's 100% owned Ti-pa-haa-kaa-ning/Big Dam gold property in northwestern Ontario (the "TPK Property"). To earn its 51% interest, the Company must fund \$9,400,000 in exploration expenses over a three year period, make cash payments of \$300,000 upon receipt of regulatory approval and a further \$1,300,000 in January 2011, 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 Company may terminate the option after completing its year one obligations. This agreement is subject to acceptance by the TSX Venture Exchange.

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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 \$	Obligation to issue shares \$
Issued				
As at September 30, 2009	57,161,890	70,354,790	7,174,685	-
Stock-based compensation	-	-	4,211,154	136,600
Stock options exercised	1,085,960	1,255,418	-	-
Fair value allocation on exercise of options	-	1,309,987	(1,309,987)	-
Property option agreements	192,000	750,280	-	-
Private placements	14,038,500	63,261,390	-	-
Share issue costs	-	(4,131,897)	-	-
Tax benefits of the renunciation of flow-through expenditures to shareholders	-	(2,062,000)	-	-
As at June 30, 2010	72,478,350	130,737,968	10,075,852	136,600

Private placements

On February 25, 2010, the Company closed a 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 on a bought deal basis. Each unit consists 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.

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. At June 30, 2010, the Company has incurred all of the flow-through expenditures agreed to be incurred by December 31, 2010.

(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 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.

The Company has previously issued share purchase warrants as part of private placement financings, when market conditions suggest warrants would be beneficial to the pricing of the financing.

RAINY RIVER RESOURCES LTD.
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7. SHARE CAPITAL (Cont'd)

Stock options 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	(1,085,960)	1.16	-	-
Expired/cancelled	-	-	-	-
Outstanding, June 30, 2010	5,469,040	3.06	5,557,000	7.10
Exercisable, June 30, 2010	2,786,540	2.59	5,557,000	7.10

The following stock options and warrants were outstanding at June 30, 2010:

	Number of shares	Exercise Price \$	Expiry Date
Stock options	100,000	4.50	June 6, 2013 (1/3 not vested)
	50,000	2.00	June 6, 2013 (1/3 not vested)
	3,500	2.00	August 6, 2013 (3,333 not vested)
	866,667	0.83	November 11, 2013 (333,333 not vested)
	255,137	2.00	February 9, 2014 (171,667 not vested)
	1,746,902	2.00	February 9, 2014 (633,333 not vested)
	500,000	2.01	June 22, 2014 (1/3 not vested)
	250,000	2.98	December 14, 2014 (2/3 not vested)
	846,834	5.00	February 17, 2015 (590,833 not vested)
	150,000	6.09	April 6, 2015 (2/3 not vested)
	300,000	6.18	May 18, 2015 (2/3 not vested)
	400,000	6.75	June 17, 2015 (2/3 not vested)
	5,469,040		
Warrants	5,557,000	7.10	February 26, 2012
	5,557,000		

Vesting of options may be accelerated under certain conditions.

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7. SHARE CAPITAL (Cont'd)

(c) Stock-based compensation

During the nine-month period ended June 30, 2010, the Company granted 1,980,000 (June 30, 2009 – 3,400,000) stock options with a total estimated fair value of \$6,548,869 (June 30, 2009 - \$3,836,151) and re-priced nil (June 30, 2009 – 575,000) stock options that the Company estimated had a fair value of \$nil (June 30, 2009 - \$696,732). The fair value per option granted was \$3.31 (June 30, 2009 - \$1.13) and per re-priced option was \$nil (June 30, 2009 - \$1.21). The vesting periods ranged from date of grant for a period of two years. During the nine month period ended June 30, 2010, the Company recorded stock based compensation of \$136,900 related to its commitment to issue shares (Note 7(d)). For the nine-month period ended June 30, 2010, the Company recorded a total of \$4,348,054 (June 30, 2009 - \$2,205,215) 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:

	Nine months ended June 30, 2010	Nine months ended June 30, 2009
Risk free interest rate	1.94%	2.16%
Expected life	5 years	5 years
Expected stock volatility	80%	90%
Expected dividend yield	Nil	Nil

(d) Commitments to issue shares

In June 2009, the Company agreed to issue 50,000 common shares (valued at \$100,500) 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. The value has been recorded as stock-based compensation expense with obligation to issue shares being credited. The shares were issued subsequent to June 30, 2010.

In May 2010, the Company agreed to issue 50,000 common shares (valued at \$309,000) as a signing bonus to the Company's new Vice President and Chief Financial Officer on May 18, 2011, being the first anniversary of the date of the appointment, provided the Vice President and Chief Financial Officer continues to be employed by the Company at that time. The value is being amortized over the period to issuance and to June 30, 2010, \$36,400 has been charged to stock-based compensation expense with obligation to issue shares being credited.

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8. RELATED PARTY TRANSACTIONS

During the nine months ended June 30, 2010, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$90,000 (June 30, 2009 - \$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 fees of \$45,000 (June 30, 2009 - \$45,000) to a company controlled by the Company's Chief Financial Officer to July 4, 2010, who is now the Company's Controller;
- (c) paid or accrued consulting fees, included in exploration costs, of \$145,171 (June 30, 2009 - \$41,332) and other consulting fees of \$90,000 (June 30, 2009 - \$50,000) to a company controlled by the Vice President Exploration, who is also a director;
- (d) paid or accrued consulting fees of \$90,000 (June 30, 2009 - \$50,000) to a company controlled by the Vice President Administration, who is also a director; and
- (e) paid or accrued directors fees of \$45,500 (June 30, 2009 - \$nil) to independent directors of the Company.

As at June 30, 2010, accounts payable and accrued liabilities includes \$65,287 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.

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 nine months ended June 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 \$1,969,644 as at June 30, 2010 (\$1,321,566 as at September 30, 2009);
- b) The issuance of common shares valued at \$750,280 related to mineral property option agreements;
- c) The recognition of a fair value component of \$1,309,987 in respect of options exercised; and
- d) The recording of a decrease 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.

For the nine months ended June 30, 2009, the Company's significant non-cash financing and investing transactions consisted of:

- e) The accrual in mineral properties of deferred exploration costs incurred of \$742,878 as at June 30, 2009 (\$1,192,646 at September 30, 2008);
- f) The issuance of common shares valued at \$331,325 related to mineral property option agreements;
- g) The issuance of common shares valued at \$130,000 related to the purchase of royalty and bonus rights;
- h) The issuance of common shares valued at \$1,710,000 related to the purchase of NSR rights; and
- i) The allocation of a share repurchase premium of \$198,801 from share capital to contributed surplus on cancellation of treasury shares repurchased.

RAINY RIVER RESOURCES LTD.
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(Unaudited)

10. INCOME TAXES

A reconciliation of income tax expense (recovery) for the nine month periods ended June 30, 2010 and 2009 at statutory rates with reported taxes follows:

	Nine months ended	
	June 30, 2010	June 30, 2009
Loss before income taxes	\$ (6,635,871)	\$ (2,876,379)
Expected income tax recovery	\$ (1,916,000)	\$ (867,000)
Non deductible expenses	1,304,000	708,000
Non-capital losses and financing costs	(922,000)	(15,000)
Income tax expense (recovery)	\$ (1,534,000)	\$ (174,000)
Represented by:		
Income tax expense (recovery)	-	-
Future income tax expense (recovery)	\$ (1,534,000)	\$ (174,000)

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities as at June 30, 2010 and September 30, 2009 are as follows:

	June 30, 2010	September 30, 2009
Future income tax assets:		
Financing costs	\$ 1,039,000	\$ 284,000
Investment tax credit	2,155,000	1,411,000
Non-capital losses carried forward	1,891,000	1,134,000
Net capital losses carried forward	562,000	563,000
Equipment	76,000	54,000
	5,723,000	3,446,000
Valuation allowance	(2,717,000)	(1,964,000)
Net future income tax assets	3,006,000	1,482,000
Future income tax liabilities:		
Marketable securities	-	(10,000)
Mineral properties	(4,579,000)	(2,517,000)
	(4,579,000)	(2,527,000)
Net future income tax assets (liabilities)	\$ (1,573,000)	\$ (1,045,000)

Subject to certain restrictions, at June 30, 2010, the Company has operating losses of approximately \$7,563,000 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 \$45,062,000 available to reduce taxable income of future years. The Company also has net capital loss carry forwards of approximately \$4,499,000.

During fiscal 2010, the Company renounced certain deductions for Canadian exploration expenditures incurred and to be incurred on the Company's resource properties in connection with the flow-through shares issued in November 2009, resulting in a future income tax liability and a charge against share capital of \$2,062,000. At June 30, 2010, the Company has incurred all of the flow-through expenditures agreed to be incurred by December 31, 2010.

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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. SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the Company:

- a) issued 16,500 common shares on exercise of stock options for proceeds of \$37,500;
- b) issued 10,000 common shares and paid \$10,000 towards a new mineral property option agreement; and
- c) issued 50,000 common shares to the Company's President and Chief Executive Officer pursuant to a June 2009 agreement (Note 7(d)).