

**RAINY RIVER RESOURCES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Stated in Canadian Dollars)**  
**FOR THE THREE MONTHS ENDED**  
**DECEMBER 31, 2010**

**(Unaudited)**

**RAINY RIVER RESOURCES LTD.**

**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

	<b>December 31 2010</b>	<b>September 30 2010</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 8)	\$ 65,252,483	\$ 71,870,010
Receivables	1,640,298	668,754
Prepaid expenses	183,134	83,336
	67,075,915	72,622,100
<b>NON-CURRENT</b>		
Restricted cash (Note 2)	2,098,183	-
Investments (Note 3)	2,100,000	1,050,000
Equipment (Note 4)	566,615	454,347
Mineral properties (Note 5)	80,292,426	70,542,980
	\$ 152,133,139	\$ 144,669,427
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 3,216,177	\$ 1,922,205
<b>NON-CURRENT</b>		
Future income taxes (Note 9)	449,000	978,000
	3,665,177	2,900,205
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	158,319,040	151,052,582
Contributed surplus (Note 6)	12,481,664	10,946,580
Obligation to issue shares (Note 6)	192,200	114,300
Accumulated other comprehensive income	1,400,000	481,250
Deficit	(23,924,942)	(20,825,490)
	148,467,962	141,769,222
	\$ 152,133,139	\$ 144,669,427

**Commitments (Notes 6a and 6d)**

**Subsequent events (Note 11)**

**APPROVED BY THE DIRECTORS:**

*“Dale C. Peniuk”*

*“Raymond W. Threlkeld”*

**Dale C. Peniuk, Director**

**Raymond W. Threlkeld, Director**

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

**RAINY RIVER RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

**FOR THE THREE MONTHS ENDED DECEMBER 31**

**(Unaudited)**

	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Amortization	\$ 38,687	\$ 14,326
Audit and legal	51,060	7,806
Consulting	288,021	137,092
Office and miscellaneous	136,680	44,982
Promotion and investor relations	31,960	51,743
Regulatory and filing fees	44,136	41,783
Rent	56,331	17,212
Salaries and benefits	1,179,684	245,678
Stock-based compensation (Note 6c)	1,886,454	596,607
Travel	235,183	62,964
	<b>(3,948,196)</b>	<b>(1,220,193)</b>
<b>LOSS BEFORE OTHER ITEMS AND INCOME TAXES</b>		
<b>OTHER ITEMS</b>		
Interest income	188,494	71,194
Unrealized loss on marketable securities	-	(73,615)
	<b>188,494</b>	<b>(2,421)</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(3,759,702)</b>	<b>(1,222,614)</b>
Future income tax recovery (Note 9)	660,250	278,000
<b>LOSS FOR THE PERIOD</b>	<b>(3,099,452)</b>	<b>(944,614)</b>
<b>DEFICIT, BEGINNING OF THE PERIOD</b>	<b>(20,825,490)</b>	<b>(14,043,059)</b>
<b>DEFICIT, END OF THE PERIOD</b>	<b>(\$23,924,942)</b>	<b>(\$14,987,673)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (0.04)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>75,980,508</b>	<b>59,154,488</b>

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

**RAINY RIVER RESOURCES LTD.**

**CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME**

**FOR THE THREE MONTHS ENDED DECEMBER 31**

**(Unaudited)**

	<b>2010</b>	<b>2009</b>
<b>Accumulated other comprehensive income, beginning of period</b>	\$ 481,250	\$ -
Other comprehensive income		
Unrealized gain on available-for-sale financial asset arising during the period, net of tax (Note 3)	918,750	-
<b>Accumulated other comprehensive income, end of period</b>	<b>\$ 1,400,000</b>	<b>\$ -</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**FOR THE THREE MONTHS ENDED DECEMBER 31**

**(Unaudited)**

	<b>2010</b>	<b>2009</b>
<b>Loss for the period</b>	\$ (3,099,452)	\$ (944,614)
Other comprehensive income		
Unrealized gain on available-for-sale financial asset arising during the period, net of tax (Note 3)	918,750	-
<b>Comprehensive loss for the period</b>	<b>\$ (2,180,702)</b>	<b>\$ (944,614)</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)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (3,099,452)	\$ (944,614)
Items not involving cash:		
Amortization	38,687	14,326
Unrealized loss on marketable securities	-	73,615
Interest accrual on short-term deposits	-	(56,064)
Stock-based compensation	1,886,454	596,607
Future income tax recovery	(660,250)	(278,000)
Changes in non-cash working capital items:		
Accounts payable and accrued liabilities	767,657	37,453
Receivables	(971,544)	(62,659)
Prepaid expenses	(99,798)	(59,461)
Net cash flows used in operating activities	<u>(2,138,246)</u>	<u>(678,797)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on issue of share capital	5,606,488	8,329,090
Share issue costs	-	(632,275)
Cash flows provided by financing activities	<u>5,606,488</u>	<u>7,696,815</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties, net of changes in accounts payable and accrued liabilities	(7,836,631)	(4,439,273)
Restricted cash	(2,098,183)	-
Purchase of equipment	(150,955)	(26,256)
Cash flows used in investing activities	<u>(10,085,769)</u>	<u>(4,465,529)</u>
<b>CHANGE IN CASH AND CASH EQUIVLENTS DURING THE PERIOD</b>	(6,617,527)	2,552,489
Cash and cash equivalents- beginning of period	<u>71,870,010</u>	<u>7,562,591</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>\$ 65,252,483</u>	<u>\$ 10,115,080</u>

Supplemental disclosure with respect to cash flows (Note 8)

*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, 2010**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

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

Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with Canadian GAAP have been condensed or excluded. 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 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 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 months ended December 31, 2010 are not necessarily indicative of the results to be expected for the full year.

**2. RESTRICTED CASH**

At December 31, 2010, restricted cash includes \$2,040,582 held by the Company’s bank to secure a letter of credit issued to the government of Ontario to obtain a permit in respect of future remediation costs associated with the advanced exploration development project on the Rainy River Property (Note 5a). The permit application process required that the letter of credit be posted before filing the project documentation with the Ministry. A further \$57,601 is held by the Company’s bank as security related to Company credit cards (September 30, 2010 – Nil).

**3. INVESTMENTS**

At December 31, 2010, investments consist of shares of Northern Superior Resources Inc. (“Northern Superior”) with an original cost of \$500,000 (Note 5c). 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 arising from this treatment are included in other comprehensive income, and reported net of tax, in the statement of comprehensive loss.

**4. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
<b>December 31, 2010</b>			
Computer equipment	412,764	169,139	243,625
Office furniture and equipment	200,974	69,402	131,572
Field equipment	378,927	187,509	191,418
	<b>992,665</b>	<b>426,050</b>	<b>566,615</b>
<b>September 30, 2010</b>			
Computer equipment	302,155	152,897	149,258
Office furniture and equipment	184,751	62,478	122,273
Field equipment	354,804	171,988	182,816
	841,710	387,363	454,347

**RAINY RIVER RESOURCES LTD.**  
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**5. MINERAL PROPERTIES**

	<u>December 31, 2010</u>	<u>September 30, 2010</u>
Rainy River Property	\$ 78,265,481	\$ 70,027,892
Mud Creek Property	215,088	215,088
TPK Property	1,811,857	300,000
	<u>\$ 80,292,426</u>	<u>\$ 70,542,980</u>

Title to mineral properties involves inherent risks due to difficulties in 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 is in good standing.

**a) Rainy River Property, Ontario**

The Company holds a 100% interest in the Rainy River Property, although 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 Property.

During the period from June 2005 to December 31, 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 totaling \$3,395,000 (\$2,153,610 paid) and issuing a total of 1,689,500 common shares (1,326,500 issued at a total value of \$5,110,830) 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, totaling \$90,000 (\$30,000 paid).

During fiscal 2008, 2009 and 2010, the Company also paid a cumulative 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 period ended December 31, 2010, the Company made a deposit towards the purchase of surface and mineral rights to a land parcel in Richardson Township, Rainy River District for \$168,365 (2009 – purchased four parcels for \$1,162,346).

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

**a) Rainy River Property, Ontario**

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

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
<b>Acquisition costs</b>		
Opening balance	\$ 15,623,852	\$ 12,236,623
Additions in the period		
Shares issued	907,000	1,423,780
Property option payments	200,000	565,000
Advance royalty payments	-	30,000
Legal costs	64,203	204,288
Staking costs	-	1,815
Land rights purchase	168,365	1,162,346
<b>Total additions in the period</b>	<b>1,339,568</b>	<b>3,387,229</b>
Ending balance – acquisition costs	16,963,420	15,623,852
<b>Exploration costs</b>		
Opening balance	54,404,040	35,372,935
Additions in the period		
Capitalized stock-based and other compensation	724,500	-
Compilation and analysis	728,331	2,077,801
Core saw building improvements	85,982	111,842
Drilling	3,707,161	11,825,252
Equipment rental	16,308	108,416
Field technicians and expenses	879,458	1,635,085
Geologists and consultants	177,922	976,055
Geologic metallurgy framework studies	-	57,595
Mine waste and geotechnical studies	-	106,308
Permits and filing fees	20,250	-
Preliminary economic assessment	60,009	12,460
Preliminary geotechnical studies	77,084	843,886
Site building construction	40,800	-
Site office preparation	-	49,728
Socio-environmental baseline studies	292,636	1,026,517
Structural geology studies	37,320	-
Travel and subsistence	50,260	200,160
<b>Total additions in the period</b>	<b>6,898,021</b>	<b>19,031,105</b>
Ending balance – exploration costs	61,302,061	54,404,040
<b>Cumulative costs – Rainy River Property</b>	<b>\$ 78,265,481</b>	<b>\$ 70,027,892</b>

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

**b) 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:

	<b>December 31 2010</b>	<b>September 30 2010</b>
<b>Acquisition costs</b>		
Opening balance	\$ 17,685	\$ 17,685
Additions in the period	-	-
Ending balance – acquisition costs	17,685	17,685
<b>Exploration costs</b>		
Opening balance	197,403	106,912
Additions		
Geological consulting	-	440
Electromagnetic geotechnical survey	-	80,356
Lease maintenance costs	-	9,695
Total additions in the period	-	90,491
Ending balance – exploration costs	197,403	197,403
<b>Cumulative costs – Mud Creek Property</b>	<b>\$ 215,088</b>	<b>\$ 215,088</b>

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

**c) 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 by April 30, 2013, make cash payments of \$300,000 (paid) upon receipt of regulatory approval and a further \$1,300,000 in January 2011 (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 (2,500,000 common shares in Northern Superior acquired in fiscal 2010 for \$500,000 - see Note 3). The Company may terminate the option agreement after completing its year one obligations of incurring exploration expenditures of \$1,400,000 and making the cash payments totaling \$1,600,000.

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

	<b>December 31,</b>	<b>September 30,</b>
	<b>2010</b>	<b>2010</b>
<b>Acquisition costs</b>		
Opening balance	\$ 300,000	\$ -
<b>Additions in the period</b>		
Property option payments	-	300,000
<b>Ending balance – acquisition costs</b>	<b>300,000</b>	<b>300,000</b>
<b>Exploration costs</b>		
Opening balance	-	-
<b>Additions in the period</b>		
Compilation and analysis	178,224	-
Drilling	343,546	-
Equipment and helicopter rentals	554,830	-
Field technicians and expenses	221,802	-
Geologists and consultants	79,521	-
Geological surveys	56,910	-
Travel and subsistence	77,024	-
<b>Total additions in the period</b>	<b>1,511,857</b>	<b>-</b>
<b>Ending balance – exploration costs</b>	<b>1,511,857</b>	<b>-</b>
<b>Cumulative costs – TPK Property</b>	<b>\$ 1,811,857</b>	<b>\$ 300,000</b>

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

**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 \$
<b>Issued</b>				
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	-	-	2,288,054	77,900
Stock options exercised	318,667	710,683	-	-
Fair value allocation on exercise of options	-	752,970	(752,970)	-
Warrants exercised	689,550	4,895,805	-	-
Property option agreements	100,000	907,000	-	-
As at December 31, 2010	76,327,566	158,319,040	12,481,664	192,200

**Private placements**

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 December 31, 2010, the Company has incurred \$9,365,000 (or 47%) of the flow-through expenditures agreed to be incurred by December 31, 2011.

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 on a bought deal basis. 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.

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.

**(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

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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.

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

	<u>Stock options</u>		<u>Warrants</u>	
	<b>Number of options</b>	<b>Weighted Average Exercise Price \$</b>	<b>Number of warrants</b>	<b>Exercise Price \$</b>
<b>Outstanding, September 30, 2009</b>	<b>4,575,000</b>	<b>1.61</b>	-	-
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	-	-
<b>Outstanding, September 30, 2010</b>	<b>5,219,707</b>	<b>3.04</b>	<b>5,532,000</b>	<b>7.10</b>
Granted/issued <sup>(1)</sup>	500,000	9.15	-	-
Exercised	(318,667)	2.23	(689,550)	7.10
Expired/cancelled	-	-	-	-
<b>Outstanding, December 31, 2010</b>	<b>5,401,040</b>	<b>3.65</b>	<b>4,842,450</b>	<b>7.10</b>
<b>Exercisable, December 31, 2010</b>	<b>3,015,208</b>	<b>2.27</b>	<b>4,842,450</b>	<b>7.10</b>

The following stock options and warrants were outstanding at December 31, 2010:

	<b>Number of shares</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>	<b>Exercisable</b>
Stock options	100,000	4.50	June 6, 2013	66,667
	3,500	2.00	August 6, 2013	167
	800,000	0.83	November 11, 2013	800,000
	93,636	2.00	February 9, 2014	15,303
	1,624,735	2.00	February 9, 2014	1,008,069
	500,000	2.01	June 22, 2014	333,333
	250,000	2.98	December 11, 2014	166,667
	694,169	5.00	February 16, 2015	190,002
	135,000	6.09	April 7, 2015	35,000
	300,000	6.18	May 18, 2015	100,000
	400,000	6.75	June 17, 2015	133,333
	500,000	9.15	October 28, 2015	166,667
	<b>5,401,040</b>			<b>3,015,208</b>
Warrants	4,842,450	7.10	February 26, 2012	
	<b>4,842,450</b>			

Vesting of options may be accelerated under certain conditions.

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

**(c) Stock-based compensation**

During the three month period ended December 31, 2010, the Company granted 500,000 (2009 – 250,000) stock options with a total estimated fair value of \$2,582,709 (2009 - \$495,586). The fair value per option granted was \$5.16 (2009 - \$1.98). The vesting periods ranged from date of grant to a period of two years. For the period ended December 31, 2010, the Company recorded a total of \$2,288,054 (2009 - \$596,607) as stock-based compensation expense from option grants and \$77,900 (2009 – \$ nil) related to its commitments to issue shares (Note 6d), of which \$479,500 was capitalized to mineral properties, and \$1,886,454 was included in net loss for the period.

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:

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
Risk free interest rate	2.03%	1.94%
Expected life	4.4 years	5 years
Expected stock volatility	71%	80%
Expected dividend yield	Nil	Nil

**(d) Commitments 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 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 during the three month period ended December 31, 2010, \$77,900 (2009 - Nil) has been charged to stock-based compensation expense, with obligation to issue shares being credited.

**7. RELATED PARTY TRANSACTIONS**

During the three months ended December 31, 2010, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$Nil (2009 - \$30,000) 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 \$143,138 (2009 – \$40,195) and consulting and termination fees of \$130,000 (2009 - \$30,000 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 \$105,000 (2009 - \$30,000 in consulting fees) to a company controlled by the Vice President Administration, who is also a director; and
- (d) paid or accrued directors fees of \$51,393 (2009 - \$nil) to independent directors of the Company.

As at December 31, 2010, accounts payable and accrued liabilities includes \$114,425 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.

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**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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

The cash and cash equivalents consist of:

	<u>December 31,</u> <u>2010</u>	<u>September 30,</u> <u>2010</u>
Cash	\$ 2,107,918	\$ 5,623,194
Guaranteed investment certificates	<u>63,144,565</u>	<u>66,246,816</u>
	<u>\$ 65,252,483</u>	<u>\$ 71,870,010</u>

For the three months ended December 31, 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 \$2,057,903 as at December 31, 2010;
- b) The issuance of common shares valued at \$907,000 related to mineral property option agreements; and
- c) The recognition of a fair value component of \$752,970 in respect of options exercised.

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; and
- c) The recognition of a fair value component of \$110,613 in respect of options exercised.

**9. INCOME TAXES**

A reconciliation of income tax recovery for the three months ended December 31, 2010 and 2009 at statutory rates with reported taxes follows:

	<b>Three months ended</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Loss before income taxes	\$ (3,759,702)	\$ (1,222,614)
Expected income tax recovery	\$ (1,086,000)	\$ (353,000)
Non-deductible expenses	564,000	198,000
Non-capital losses and financing costs	(138,250)	(123,000)
Income tax recovery	\$ (660,250)	\$ (278,000)
Represented by:		
Income tax recovery	-	-
Future income tax recovery	\$ (660,250)	\$ (278,000)

**RAINY RIVER RESOURCES LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months ended December 31, 2010**  
**(Unaudited)**

**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 December 31, 2010 and September 30, 2010 are as follows:

	December 31, 2010	September 30, 2010
Future income tax assets:		
Financing costs	\$ 1,119,000	\$ 1,217,000
Investment tax credits	2,463,000	2,408,000
Non-capital losses carried forward	2,841,000	2,291,000
Net capital losses carried forward	562,000	562,000
Equipment	103,000	94,000
	<u>7,088,000</u>	<u>6,572,000</u>
Valuation allowance	<u>(2,825,000)</u>	<u>(2,902,000)</u>
Net future income tax assets	<u>4,263,000</u>	<u>3,670,000</u>
Future income tax liabilities:		
Investments	(200,000)	(69,000)
Mineral properties	(4,512,000)	(4,579,000)
	<u>(4,712,000)</u>	<u>(4,648,000)</u>
Net future income tax liabilities	<u>\$ (449,000)</u>	<u>\$ (978,000)</u>

Subject to certain restrictions, at December 31, 2010, the Company has operating losses of approximately \$11,365,000 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 \$51,910,000 available to reduce taxable income of future years. The Company also has net capital loss carry forwards of approximately \$4,499,000.

During the three months ended December 31, 2010, the Company did not renounce any 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 September 2010. As at December 31, 2010, the Company has incurred \$9,365,000 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 5b.

**11. SUBSEQUENT EVENTS**

On January 4, 2011, the Company made a payment of \$1.3 million to Northern Superior pursuant to the TPK option agreement entered into on September 9, 2010 (Note 5c).

On January 7, 2011, the Company closed a brokered private placement of 5,930,000 common shares at a price of \$12.65 per share for gross proceeds of \$75,014,500. In connection with the offering, the underwriters were paid a cash commission of approximately \$3.75 million.