

RAINY RIVER RESOURCES LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Stated in Canadian Dollars)
FOR THE SIX MONTHS ENDED
MARCH 31, 2011

(Unaudited)

RAINY RIVER RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS

	<u>March 31, 2011</u>	<u>September 30, 2010</u>
CURRENT		
Cash and cash equivalents (Note 8)	\$ 69,789,339	\$ 71,870,010
Receivables	2,113,921	668,754
Prepaid expenses	147,572	83,336
Short-term investments (Note 2)	63,181,851	-
	<u>135,232,683</u>	<u>72,622,100</u>
NON-CURRENT		
Restricted cash (Note 2)	2,098,183	-
Investments (Note 3)	1,975,000	1,050,000
Equipment (Note 4)	609,256	454,347
Mineral properties (Note 5)	91,352,729	70,542,980
	<u>\$ 231,267,851</u>	<u>\$ 144,669,427</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 3,423,361	\$ 1,922,205
NON-CURRENT		
Future income taxes (Note 9)	<u>3,801,000</u>	<u>978,000</u>
	<u>7,224,361</u>	<u>2,900,205</u>

SHAREHOLDERS' EQUITY

Share capital (Note 6)	233,055,450	151,052,582
Contributed surplus (Note 6)	17,298,165	10,946,580
Obligation to issue shares (Note 6)	270,100	114,300
Accumulated other comprehensive income	1,290,625	481,250
Deficit	<u>(27,870,850)</u>	<u>(20,825,490)</u>
	<u>224,043,490</u>	<u>141,769,222</u>
	<u>\$ 231,267,851</u>	<u>\$ 144,669,427</u>

Commitments (Notes 6a and 6d)

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 March 31,		For the six months ended March 31,	
	2011	2010	2011	2010
EXPENSES				
Amortization	\$ 45,942	\$ 26,047	\$ 84,629	\$ 40,373
Audit and legal	86,460	89,230	137,520	97,036
Consulting	264,561	160,566	552,582	297,658
Office and miscellaneous	99,305	74,195	235,985	119,177
Promotion and investor relations	29,789	61,442	61,749	113,185
Regulatory and filing fees	88,689	59,386	132,825	101,169
Rent	58,451	17,002	114,782	34,214
Salaries and benefits	803,609	257,948	1,983,293	503,626
Stock-based compensation (Note 6c)	4,355,409	1,480,016	6,241,863	2,076,623
Travel	235,002	122,802	470,185	185,766
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	<u>(6,067,217)</u>	<u>(2,348,634)</u>	<u>(10,015,413)</u>	<u>(3,568,827)</u>
OTHER ITEMS				
Interest income	478,934	68,987	667,428	140,181
Unrealized loss on marketable securities	-	(5,904)	-	(79,519)
Gain on disposal of marketable securities	-	5,904	-	5,904
	<u>478,934</u>	<u>68,987</u>	<u>667,428</u>	<u>66,566</u>
LOSS BEFORE INCOME TAXES	(5,588,283)	(2,279,647)	(9,347,985)	(3,502,261)
Future income tax recovery (Note 9)	<u>1,642,375</u>	<u>1,055,000</u>	<u>2,302,625</u>	<u>1,333,000</u>
LOSS FOR THE PERIOD	(3,945,908)	(1,224,647)	(7,045,360)	(2,169,261)
DEFICIT, BEGINNING OF THE PERIOD	(\$23,924,942)	(14,987,673)	(20,825,490)	(14,043,059)
DEFICIT, END OF THE PERIOD	<u>(\$27,870,850)</u>	<u>(\$16,212,320)</u>	<u>(\$27,870,850)</u>	<u>(\$16,212,320)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.05)	\$ (0.02)	\$ (0.09)	\$ (0.03)
Weighted average number of common shares outstanding	82,271,377	65,218,638	79,097,576	62,153,578

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

RAINY RIVER RESOURCES LTD.

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended March 31,		For the six months ended March 31,	
	2011	2010	2011	2010
Accumulated other comprehensive income, beginning of period	\$ 1,400,000	\$ -	\$ 481,250	\$ -
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale financial asset arising during the period, net of tax	(109,375)	-	809,375	-
Accumulated other comprehensive income, end of period	\$ 1,290,625	\$ -	\$ 1,290,625	\$ -

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	For the three months ended March 31,		For the six months ended March 31,	
	2011	2010	2011	2010
Loss for the period	\$(3,945,908)	\$(1,224,647)	\$ (7,045,360)	\$ (2,169,261)
Other comprehensive income (loss)				
Unrealized gain (loss) on available-for-sale financial asset arising during the period, net of tax	(109,375)	-	809,375	-
Comprehensive loss for the period	\$(4,055,283)	\$(1,224,647)	\$ (6,235,985)	\$ (2,169,261)

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 March 31,		For the six months ended March 31,	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (3,945,908)	\$ (1,224,647)	\$ (7,045,360)	\$ (2,169,261)
Items not involving cash:				
Amortization	45,942	26,047	84,629	40,373
Gain on disposal of marketable securities	-	(5,904)	-	(5,904)
Unrealized loss on marketable securities	-	5,904	-	79,519
Interest accrual on short-term deposits	(280,034)	56,064	(280,034)	-
Stock-based compensation	4,355,409	1,480,016	6,241,863	2,076,623
Future income tax recovery	(1,642,375)	(1,055,000)	(2,302,625)	(1,333,000)
Changes in non-cash working capital items:				
Accounts payable and accrued liabilities	(288,782)	(59,094)	478,875	(21,641)
Receivables	(473,623)	(26,836)	(1,445,167)	(89,495)
Prepaid expenses	35,562	(21,209)	(64,236)	(80,670)
Net cash flows used in operating activities	<u>(2,193,809)</u>	<u>(824,659)</u>	<u>(4,332,055)</u>	<u>(1,503,456)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issue of share capital	82,787,865	55,868,226	88,394,353	64,197,316
Share issue costs	<u>(3,904,024)</u>	<u>(3,490,683)</u>	<u>(3,904,024)</u>	<u>(4,122,958)</u>
Cash flows provided by financing activities	<u>78,883,841</u>	<u>52,377,543</u>	<u>84,490,329</u>	<u>60,074,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral properties, net of changes in accounts payable and accrued liabilities	(9,162,776)	(4,273,601)	(16,999,407)	(8,712,874)
Short-term investments	(62,901,817)	10,143,311	(62,901,817)	10,143,311
Restricted cash	-	-	(2,098,183)	-
Proceeds on disposal of marketable securities	-	84,785	-	84,785
Purchase of equipment	<u>(88,583)</u>	<u>(89,708)</u>	<u>(239,538)</u>	<u>(115,964)</u>
Cash flows used in investing activities	<u>(72,153,176)</u>	<u>5,864,787</u>	<u>(82,238,945)</u>	<u>1,399,258</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	4,536,856	57,417,671	(2,080,671)	59,970,160
Cash and cash equivalents- beginning of period	<u>65,252,483</u>	<u>10,115,080</u>	<u>71,870,010</u>	<u>7,562,591</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 69,789,339</u>	<u>\$ 67,532,751</u>	<u>\$ 69,789,339</u>	<u>\$ 67,532,751</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 six months ended March 31, 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.

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 and six months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year.

2. SHORT-TERM INVESTMENTS

At March 31, 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 \$280,034 (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 ramp 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.
- \$57,500 relating to Company credit cards (September 30, 2010 – Nil).

3. INVESTMENTS

At March 31, 2011, 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 (losses) arising from this treatment are included in other comprehensive income (loss), and reported net of tax, in the statement of comprehensive loss.

4. EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
March 31, 2011			
Computer equipment	\$ 457,211	\$ 188,584	\$ 268,627
Office furniture and equipment	211,835	77,051	134,784
Field equipment	412,202	206,357	205,845
	\$ 1,081,248	\$ 471,992	\$ 609,256
September 30, 2010			
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.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2011
(Unaudited)

5. MINERAL PROPERTIES

	<u>March 31, 2011</u>	<u>September 30, 2010</u>
Rainy River Property	\$ 85,453,261	\$ 70,027,892
Mud Creek Property	235,534	215,088
TPK Property	<u>5,663,934</u>	<u>300,000</u>
	<u>\$ 91,352,729</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. Management has investigated title to all of the Company's mineral properties and, to the best of their 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, located 107 kilometres 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 Property.

During the period from June 2005 to March 31, 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 (\$2,373,500 paid as at March 31, 2011) and issuing a total of 1,677,000 common shares (1,311,000 issued as at March 31, 2011 at a total value of \$5,244,195) 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 (\$30,000 paid as at March 31, 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 period ended March 31, 2011, the Company purchased the surface and mineral rights to property in Richardson Township for \$205,211 (2010 – 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:

	As at March 31, 2011	As at September 30, 2010
Acquisition costs		
Opening balance	\$ 15,785,422	\$ 12,236,623
Additions in the period		
Land acquisition – shares issued	1,170,880	1,423,780
Other land acquisition costs	1,031,298	2,125,019
Total additions in the period	2,202,178	3,548,799
Ending balance – acquisition costs	17,987,600	15,785,422
Exploration costs		
Opening balance	54,242,470	35,372,935
Additions in the period		
Drilling and assaying	8,548,336	13,903,053
Technical, environmental and other studies	763,156	1,989,171
Other exploration costs	3,911,699	2,977,311
Total additions in the period	13,223,191	18,869,535
Ending balance – exploration costs	67,465,661	54,242,470
Cumulative costs – Rainy River Property	\$ 85,453,261	\$ 70,027,892

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:

	As at March 31, 2011	As at September 30, 2010
Acquisition costs		
Opening balance	\$ 17,685	\$ 17,685
Additions in the period	-	-
Ending balance – acquisition costs	17,685	17,685
Exploration costs		
Opening balance	197,403	106,912
Additions		
Survey and lease maintenance costs	20,446	90,491
Total additions in the period	20,446	90,491
Ending balance – exploration costs	217,849	197,403
Cumulative costs – Mud Creek Property	\$ 235,534	\$ 215,088

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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 over a three year period (\$4,063,934 funded to March 31, 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 (2,500,000 common shares in Northern Superior acquired in 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:

	As at March 31, 2011	As at September 30, 2010
Acquisition costs		
Opening balance	\$ 300,000	\$ -
Additions in the period		
Property option payments	1,300,000	300,000
Ending balance – acquisition costs	1,600,000	300,000
Exploration costs		
Opening balance	-	-
Additions in the period		
Exploration expenditures	4,063,934	-
Total additions in the period	4,063,934	-
Ending balance – exploration costs	4,063,934	-
Cumulative costs – TPK Property	\$ 5,663,934	\$ 300,000

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 \$
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	-	-	7,703,244	155,800
Stock options exercised	524,567	1,361,328	-	-
Fair value allocation on exercise of options	-	1,351,659	(1,351,659)	-
Warrants exercised	1,692,750	12,018,525	-	-
Property option agreements	122,000	1,170,880	-	-
Private placement	5,930,000	75,014,500	-	-
Share issue costs	-	(3,904,024)	-	-
Tax benefits of the renunciation of flow-through expenditures to shareholders	-	(5,010,000)	-	-
As at March 31, 2011	83,488,666	233,055,450	17,298,165	270,100

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 March 31, 2011, the Company has incurred \$16,460,000 (or 78%) 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.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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6. SHARE CAPITAL (Cont'd)

(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. 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>	
	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	2,160,000	11.84	-	-
Exercised	(524,567)	2.60	(1,692,750)	7.10
Expired/cancelled	-	-	-	-
Outstanding, March 31, 2011	6,855,140	5.85	3,839,250	7.10
Exercisable, March 31, 2011	4,315,133	4.03	3,839,250	7.10

The following stock options and warrants were outstanding at March 31, 2011:

	Number of shares	Exercise Price \$	Expiry Date	Exercisable
Stock options	100,000	4.50	June 6, 2013	66,666
	800,000	0.83	November 11, 2013	800,000
	10,068	2.00	February 9, 2014	10,068
	1,580,068	2.00	February 9, 2014	1,580,068
	500,000	2.01	June 22, 2014	333,333
	250,000	2.98	December 11, 2014	166,667
	635,004	5.00	February 16, 2015	384,997
	120,000	6.09	April 7, 2015	20,000
	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
	1,660,000	12.65	January 10, 2016	553,333
	6,855,140			4,315,133
Warrants	3,839,250	7.10	February 26, 2012	3,839,250
	3,839,250			3,839,250

Vesting of options may be accelerated under certain conditions.

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6. SHARE CAPITAL (Cont'd)

(c) Stock-based compensation

During the six month period ended March 31, 2011, the Company granted 2,160,000 (2010 – 1,130,000) stock options with a total estimated fair value of \$12,101,813 (2010 - \$3,051,200). The fair value per option granted was \$5.60 (2010 - \$2.70). The vesting periods ranged from date of grant to a period of two years. For the six month period ended March 31, 2011, in gross terms, the Company recorded a total of \$7,703,244 (2010 - \$2,076,623) as stock-based compensation expense from option grants and \$155,800 (2010 – \$ nil) related to its commitments to issue shares (Note 6d). Net of the \$1,617,181 capitalized to mineral properties, stock based compensation expense included in net loss for the period is \$6,241,863.

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:

	March 31, 2011	September 30, 2010
Risk free interest rate	2.23%	1.94%
Expected life	3.7 years	5 years
Expected stock volatility	67%	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 then new Vice President and Chief Financial Officer on May 18, 2011, being the first anniversary of the date of his 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 six month period ended March 31, 2011, \$155,800 (2010 - Nil) has been charged to stock-based compensation expense, with obligation to issue shares being credited.

7. RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2011, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$Nil (2010 - \$60,000) 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 \$201,562 (2010 – \$83,969) and consulting and termination fees of \$130,000 (2010 - \$60,000 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 \$167,500 (2010 - \$60,000 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 \$108,722 (2010 - \$nil) to directors of the Company.

As at March 31, 2011, accounts payable and accrued liabilities includes \$15,692 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 six-month periods presented.

The cash and cash equivalents consist of:

	<u>March 31,</u> <u>2011</u>	<u>September 30,</u> <u>2010</u>
Cash	\$ 8,458,895	\$ 5,623,194
Guaranteed investment certificates	<u>61,330,444</u>	<u>66,246,816</u>
	<u>\$ 69,789,339</u>	<u>\$ 71,870,010</u>

For the six months ended March 31, 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 \$2,553,869 as at March 31, 2011;
- b) The issuance of common shares valued at \$1,170,880 related to mineral property option agreements;
- c) The recognition of a fair value component of \$1,351,659 in respect of options exercised; and
- d) 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.

For the six months ended March 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 \$1,204,074 as at March 31, 2010;
- b) The issuance of common shares valued at \$561,080 related to mineral property option agreements;
- c) The recognition of a fair value component of \$1,004,705 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.

9. INCOME TAXES

A reconciliation of income tax recovery for the six months ended March 31, 2011 and 2010, respectively, at statutory rates with reported taxes follows:

	Six months ended	
	March 31, 2011	March 31, 2010
Loss before income taxes	\$ (9,347,985)	\$ (3,502,261)
Expected income tax recovery	\$ 2,512,000	\$ 1,011,000
Non-deductible expenses	(1,732,000)	(634,000)
Financing costs and other	<u>1,522,625</u>	<u>956,000</u>
Income tax recovery	<u>\$ 2,302,625</u>	<u>\$ 1,333,000</u>
Represented by:		
Income tax recovery	\$ -	\$ -
Future income tax recovery	<u>2,302,625</u>	<u>1,333,000</u>

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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 March 31, 2011 and September 30, 2010, respectively, are as follows:

	March 31, 2011	September 30, 2010
Future income tax assets:		
Financing costs	\$ 1,899,000	\$ 1,217,000
Investment tax credit	2,582,000	2,408,000
Non-capital losses carried forward	3,291,000	2,291,000
Net capital losses carried forward	563,000	562,000
Equipment	120,000	94,000
	<u>8,455,000</u>	<u>6,572,000</u>
<u>Valuation allowance</u>	<u>(2,961,000)</u>	<u>(2,902,000)</u>
<u>Net future income tax assets</u>	<u>5,494,000</u>	<u>3,670,000</u>
Future income tax liabilities:		
Marketable securities	-	-
Investments	(184,000)	(69,000)
Mineral properties	(9,111,000)	(4,579,000)
	<u>(9,295,000)</u>	<u>(4,648,000)</u>
<u>Net future income tax liabilities</u>	<u>\$ (3,801,000)</u>	<u>\$ (978,000)</u>

Subject to certain restrictions, at March 31, 2011, the Company has operating losses of approximately \$13,090,000 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 \$54,357,000 available to reduce taxable income of future years. The Company also has net capital loss carry-forwards of approximately \$4,505,000.

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. As at March 31, 2011, the Company has incurred \$16,460,000 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.