

**RAINY RIVER RESOURCES LTD.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED
SEPTEMBER 30, 2010**

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated December 14, 2010 includes financial information from, and should be read in conjunction with, the audited annual consolidated financial statements of Rainy River Resources Ltd. (the "Company") for the year ended September 30, 2010. Please refer to the cautionary notes at the end of this MD&A. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars (unless otherwise stated).

The Company is a Canadian mineral exploration company based in Toronto, Ontario (during the quarter ended June 30, 2010, the Company's corporate office was moved from Vancouver, British Columbia). The Company's principal focus is its Rainy River property, located 107 kilometers west of Fort Frances in the southwest corner of northern Ontario (the "Rainy River Project"). The Company does not have any assets or mineral properties that are in production; however, on March 2, 2010, the Company announced an updated NI 43-101-compliant gold and silver resource estimate for the Rainy River property. See "PROPERTY HIGHLIGHTS – Rainy River Project" for a summary of the estimate. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "RR". The Company is incorporated under the laws of British Columbia and is a reporting issuer in British Columbia, Alberta and Ontario.

Additional information on the Company is available on SEDAR at www.sedar.com.

CORPORATE HIGHLIGHTS FOR THE YEAR

On November 2, 2009, the Company announced the closing of a private placement of 2,924,500 flow-through common shares at \$2.82 per share for gross proceeds of \$8,247,090. In connection with the offering, the agents received a cash commission of \$494,825.

On December 11, 2009, the Company announced the appointment of Garrett Macdonald as the Company's Vice-President Operations. Mr. Macdonald's experience includes large open-pit mining operations, large civil construction projects and continuous improvement applied to underground operations. Mr. Macdonald is a mining engineer and has an MBA from the Richard Ivey School of Business.

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 March 2, 2010, the Company announced an updated NI 43-101 compliant gold and silver resource estimate for the Rainy River Property. At a 0.4 g/t Au block cut-off for open pit and a 3.0 g/t Au cut-off for underground mineral resources, indicated resources totaled 2.659 million ounces of gold and 3.314 million ounces of silver at an average gold grade of 1.3 g/t, and inferred resources totaled 2.37 million ounces of gold and 6.041 million ounces of silver at an average gold grade of 1.2 g/t. Cut-off grades are based on a gold price of US\$850 per ounce gold and a gold metallurgical recovery rate of eighty-five percent, without considering revenues from other metals.

On April 9, 2010, the Company announced the appointment of Kyle Stanfield, P Eng. as the Company's Director of Environment and Sustainability. Mr. Stanfield brings extensive mine-project permitting and environmental assessment experience to the Company. Mr. Stanfield is responsible for leading the

environmental assessment and permitting of the Rainy River Project. In addition, Mr. Stanfield will be responsible for furthering the Company's relations with local First Nations and the nearby communities.

On May 12, 2010, the Company announced that it had agreed in principle to a Memorandum of Understanding ("MOU") with the Fort Frances Chiefs Secretariat, representing the seven First Nations communities most likely to be affected by the continued exploration and development of the Rainy River Project. This MOU was formally executed at a signing ceremony held at the Company's Project site on May 13, 2010.

On May 18, 2010, the Company announced the appointment of Nicholas J. Nikolakakis as Vice President and Chief Financial Officer, effective July 5, 2010. Mr. Nikolakakis is a financial professional with significant experience in corporate finance activities in the mining industry.

On May 31, 2010, the Company announced the retirement of Nelson W. Baker as Vice Chair and director.

On June 17, 2010, the Company announced the appointment of Richard Pettit, a Chartered Accountant, and James Excell, a Metallurgical Engineer, to the Company's Board of Directors. Messrs. Pettit and Excell serve as independent directors.

On June 21, 2010, the Company, together with Northern Superior Resources Inc. ("Northern Superior"), announced that they had entered into an agreement whereby Northern Superior granted the Company an option to earn a 51% joint-venture interest in the eastern half of Northern Superior's 100%-owned Ti-pa-haa-kaa-ning/Big Dam property in northwestern Ontario (the "TPK Property"). To earn its 51% interest, the Company must fund \$9.4 million in exploration expenses over a 3-year period, make a cash payment of \$300,000 (paid) upon receipt of regulatory approval and a further \$1.3 million in January 2011, and complete three equal annual private placements of common shares of Northern Superior of \$500,000 each for a total equity investment of \$1.5 million. The Company may terminate the option after completing its year-one obligations which consist of making cash payments totalling \$1,600,000 and incurring exploration expenditures of \$1,400,000 by April 30, 2011.

On September 8, 2010, the Company announced the closing of a private placement of 2,450,000 flow-through common shares at \$8.18 per share for gross proceeds of \$20,041,000. In connection with the offering, the agents received a cash commission of \$1,202,460.

On October 28, 2010, the Company announced the appointment of Mr. Kerry Sparkes as Vice President, Exploration. Mr. Sparkes is a registered Professional Geologist who brings over 22 years of experience in the mineral exploration industry to the Company's management team.

As of September 30, 2010, the Company had cash and cash equivalents of approximately \$71.9 million. The additional funds raised during fiscal 2010 have allowed the Company to accelerate both its exploration drilling program and pre-development studies.

PROPERTY HIGHLIGHTS

Rainy River Project

In June 2005, the Company acquired, from Nuinsco Resources Limited ("Nuinsco"), the right to earn a 100% interest in the Rainy River Project, consisting of 17,252.18 acres (6,981.71 hectares) situated along a 25 kilometre segment of an under-explored and poorly exposed greenstone belt in Ontario. Prior to the purchase agreement, Nuinsco had completed 217 diamond drill holes (49,515 metres) and 597 reverse circulation ("RC") holes in the Richardson Township area of the project and had discovered and partially defined two gold zones, the 17 and 433, under approximately 23 metres of glacial till within an auriferous 6 km² caldera sequence consisting of pyritized felsic volcanic rocks. Between the years 2005 – 2009, the Company completed an additional 436 diamond drill holes for a total of 223,512 meters. During this time frame, the Company discovered the Beaver Pond Zone, South Zone, Cap Zone, ODM Zone and down dip extensions to the 433 Zone. Several resource estimates have been completed by various firms between the

years 2005 - 2009. Prior to fiscal 2010, the most recent NI 43-101 compliant resource estimate was completed on May 27, 2009 by SRK Consulting (Canada) Inc. ("SRK"). In its report, SRK provided a resource estimate of 2.225 million ounces of gold as indicated resources and 1.807 million ounces of gold as inferred resources. That mineral resource statement was prepared by Dorata El-Rassi, P.Eng and Glen Cole, P. Geo of SRK, both "independent qualified persons" as that term is defined in National Instrument 43-101.

The objective of the Company's exploration programs on the Rainy River Project is to identify sufficient resources to justify a stand-alone mine and mill operation.

Exploration and technical programs executed during fiscal 2010

During fiscal 2010, the drilling program advanced and progress was made with the continued expansion of near-surface zones along strike, and further expansion and confirmation of the continuity of the ODM Zone and 433 Zone, which are still open at depth and along strike.

To help guide the resource drilling, the Company continued working with SRK to regularly update the resource estimate. On March 2, 2010, the Company announced receipt of the following updated NI 43-101-compliant gold and silver resource estimate from SRK, based on a 0.4 g/t Au block cut-off for open pit and 3.0 g/t Au cut-off for underground mineral resources, a gold price of US\$850 per ounce and a gold metallurgical recovery of eighty-five percent, without considering revenues from other metals:

- Indicated resources totaling 2.66 million ounces of gold and 3.314 million ounces of silver at an average gold grade of 1.3 g/t.
- Inferred resources totaling 2.37 million ounces of gold and 6.04 million ounces of silver at an average gold grade of 1.2 g/t.

The March 2010 resource estimate was prepared by Dorata El-Rassi, P.Eng and Glen Cole, P. Geo of SRK, both "independent qualified persons" as that term is defined in National Instrument 43-101. This estimate applied the same parameters and assumptions as were reflected in the May 2009 estimate, with the exception that the assumed pit depth was decreased to 380 metres from the 410 metres reflected in the previous resource estimate.

During the year the Company also initiated a metallurgical test program with SGS-Lakefield in order to build on results from its initial testing done in February 2008. The preliminary results (as reported in a news release dated February 13, 2008) indicated excellent gold recoveries for open-pit ore (up to 93% in gravity and flotation concentrates) which could significantly enhance the economics of the Rainy River Project. This second stage of metallurgical testing, which was directed by Micon International, was completed in relation to open-pit ore, and is ongoing with respect to underground ore. Results are being incorporated into ongoing process design, as the Company works to define the type of mill and processing facilities that would maximize gold recoveries, while helping to determine capital expenditures for inclusion in the planned scoping study.

The Company has initiated the preparation of a preliminary economic assessment of the Rainy River Project, which it anticipates will be completed following the planned release of its updated NI 43-101 report late in the first calendar quarter of 2011. The preliminary economic assessment is expected to identify the potential optimum mining method, as well as provide the first quantification of production levels, costs and project economics, for the Rainy River Project.

During fiscal 2010, the Company also engaged the services of Klohn Crippen Berger Ltd ("KCBL") to conduct baseline environmental studies. KCBL is also advising the Company on geotechnical and facilities design, including potential sites for tailings and other facilities, along with geohydrology and geochemistry of the local environment.

As at September 30, 2010, the Company had completed a total of 824 diamond drill holes, for a total of 351,682 metres of drilling on the Rainy River Project. The work to support the scoping study as well as the metallurgical and environmental programs continues.

Exploration costs for the year ended September 30, 2010 totaled \$19.0 million, including \$11.8 million on diamond drilling, \$3.7 million on assaying and field expenses, \$2.0 million on studies, and \$1.5 million on geologists, consultants and other explorations costs. Substantially all of this was infill drilling focused on tightening the drill spacing and further defining the resources in the main ODM and 433 zones of the Rainy River deposit. The Company's budget for 2011 contemplates a similar level of drilling, focusing on existing exploration targets close to the defined ore zones.

TPK Property

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 Tipa-haa-kaa-ning/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, 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 agreement after completing its year one obligations of incurring exploration expenditures of \$1,400,000 and making the cash payments totaling \$1,600,000.

As at September 30, 2010, the Company had made a cash payment of \$300,000 to Northern Superior, and the Company had subscribed for and purchased the first of three \$500,000 private placements in Northern Superior shares. In November 2010 the Company commenced a drilling campaign on the TPK property that is expected to fulfill the year-one requirement of incurring \$1.4 million in exploration expenses on the TPK property by April 30, 2011, as set forth in the agreement.

The TPK Property is located 190 km northeast of Pickle Lake, in northwestern Ontario. The 18,189-hectare property is hospitable for structurally-controlled gold deposits and contains an untested gold-grains-in-till anomaly that is as strong as, and larger than the major anomaly associated with the mineralized caldera on the Rainy River Property, suggesting the presence of a cluster of potentially significant gold zones beneath the till. The Company plans to use the experience gained from its reverse circulation ("RC") drilling discoveries at the Rainy River Project to locate these possible gold zones. The Company and Northern Superior commenced a major RC drilling program and complementary boulder prospecting in July, 2010 with diamond drilling of the RC drilling-defined targets which commenced in November, 2010.

On December 13, 2010 the Company and Northern Superior announced assay results from its initial diamond-drilling program on Target 3 of the TPK Property. Significant gold-bearing mineralization was intersected, with highlights as follows:

- Coarse-grained visible gold was noted in drill hole TPK-10-004;
- TPK-10-004 returned 25.9 g/t Au over 13.5 metres from 149.3 – 162.8 metres
 - including 46.0 g/t Au over 0.5 metres from 153.0 – 153.5 metres;
 - incl. 139.4 g/t Au over 1.7 metres from 156.8 – 158.5 metres;
 - incl. 749.0 g/t Au over 0.3 metres from 157.2 – 157.5 metres;
 - and 127.0 g/t Au over 0.7 metres from 162.0 – 162.7 metres;
- The high-grade shear zone intersected in TPK-10-004 is open both along strike and down dip;
- TPK-10-005 intersected 3.8 g/t gold over 1.2 metres from 49.6 – 50.8 metres

The Company is the operator of the TPK Joint Venture, and the current exploration program is being supervised by Kerry Sparkes, P.Geo, Vice-President Exploration, a Qualified Person as defined by National Instrument 43-101.

Minnesota Gold Project (Mud Creek)

During fiscal 2006, the Company acquired a 100% interest in certain mineral leases covering 1,725 acres in St. Louis County in northwestern 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 on September 7, 2055.

Upon acquiring the interest, the Company engaged the services of Overburden Drilling Management Limited (“ODM”) and collected a total of 70 till samples on the Mud Creek Property. The till samples were transported for processing at ODM’s laboratory in Nepean, Ontario. The initial sampling identified four new, distinct, gold-grain anomalies which were well removed from previously-known gold occurrences. One anomaly was of particular interest since it appeared to be down-ice from large, previously unexplored, mineralized quartz-feldspar porphyry. Further closely-spaced till sampling combined with systematic prospecting was carried early in fiscal 2007.

A July 2007 report prepared by ODM recommended that a detailed airborne electromagnetic and magnetic survey be done on the property, followed by 5,000 metres of diamond drilling to test a gold-bearing porphyry complex located in Section 6 of the property. Due to the emphasis on resource delineation at the Company’s Rainy River Project, no further work was conducted on the Mud Creek Property until June 2010, when the recommended airborne survey was performed. As at September 30, 2010 the Company was preparing to assess the survey maps, which assessment is expected to help identify the source of a large defined gold-grain anomaly at the Mud Creek Project, leading to possible structurally-controlled gold targets for future drilling.

QUALIFIED PERSONS

The exploration and results information under the heading “Property Highlights” has been reviewed and approved by Kerry Sparkes, P.Geo, Vice President, Exploration of the Company, a “qualified person” as that term is defined in National Instrument 43-101, which outlines standards of disclosure for mineral projects.

The technical information about the Company’s mineral properties contained in this MD&A has been prepared under the supervision of Kerry Sparkes, P.Geo, an officer of the Company, who is a “qualified person” within the meaning of National Instrument 43-101.

RISKS AND UNCERTAINTIES

In addition to the usual risks associated with an investment in a business at an early stage of development, management and the directors of the Company believe that, in particular, the following risk factors should be considered. It should be noted that this list is not exhaustive and that other risk factors may apply. An investment in the Company may not be suitable for all investors.

Dependence on One Exploration Property

Although the Company has interests in three mineral properties, the Company is currently focused essentially on one principal mineral property, that being its Rainy River Project. The Rainy River Project may never develop into a commercially viable gold or other mineral body, which would have a materially adverse effect on the Company’s potential mineral resource production, profitability, financial performance and results of operations.

Exploration and Mining Risks

The business of exploring for minerals and mining involves a high degree of risk. Only a small proportion of properties that are explored are ultimately developed into producing mines. At present, none of the Company’s properties have proven or probable reserves and the ongoing programs are an exploratory search for proven or probable reserves. The mining areas presently being assessed by the Company may not contain economically recoverable volumes of minerals or metals. The operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour and other risks involved in the operation of mines and the conduct of exploration programs. The Company has relied, and may continue to rely, upon consultants

and others for operating expertise. Should economically recoverable volumes of minerals or metal be found, substantial expenditures will be required to establish reserves through drilling, and to develop metallurgical processes, the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations, or that funds required for development can be obtained on a timely basis. The economics of developing gold and other mineral properties are affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the market price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Short term factors, such as the need for orderly development of ore bodies and the processing of new or different grades and ore types, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions or in production-scale operations. Material changes in geological resources, grades, stripping ratios and/or recovery rates may affect the economic viability of projects. Depending on the price of gold or other minerals produced, which have fluctuated widely in the past, the Company may determine that it is impractical to commence or continue commercial production.

Financing Risks

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's properties may be dependent upon the Company's ability to obtain financing through equity, debt or other means, including joint venturing, and although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its projects, with the possible loss of such properties.

Limited Experience with Development-Stage Mining Operations

The Company has no previous experience in placing mineral properties into production and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other resource companies that can provide such expertise. There can be no assurance that the Company will have the necessary expertise available to it when and if it places its resource property into production.

Estimates of Mineral Resources and Production Risks

The mineral resource estimates included in this document are estimates only and no assurance can be given that any proven or probable reserves will be discovered, that any particular level of recovery of minerals will in fact be realized, or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be economically exploited. In addition, the grade of mineralization which may ultimately be mined may differ from that indicated by drilling results, and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated resources described in this document should not be interpreted as assurances of commercial viability or potential profitability of any future operations.

Mineral Prices

The mineral exploration and development industry in general is intensely competitive and, even if commercial quantities of proven and probable reserves are discovered, there is no assurance that a profitable market may exist for the sale of the same. Factors beyond the control of the Company may affect

the marketability of any substances discovered. Mineral prices have fluctuated widely, particularly in recent years. The marketability of minerals is also affected by numerous other factors beyond the control of the Company, including government regulations relating to price, royalties, allowable production and importing and exporting of minerals, the effect of which cannot accurately be predicted.

Uninsured Risks

In the course of exploration, development and production of mineral properties, certain risks exist and, in particular, unexpected or unusual geological operating events including rock bursts, cave-ins, fire, flooding and earthquakes, may occur. It is not always possible to fully insure against such risks as a result of prohibitively high premiums or other reasons. Should such events occur, the associated liabilities could reduce or eliminate any future profitability and result in increasing costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

Competition

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition of mineral concessions as well as for the recruitment and retention of qualified employees.

Environmental and other Regulatory Requirements

The activities of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, and fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The current exploration activities of the Company require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety, mine permitting and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for exploration will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities and that it does not currently have any material environmental obligations; however, there may be unforeseen environmental liabilities resulting from exploration and/or mining activities and these may be costly to remedy.

Additionally, the Company does not maintain insurance against environmental risks. As a result, any claims against the Company may result in liabilities which could have a significant adverse effect on the operations and financial condition of the Company.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of exploration companies, or a more stringent application thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs or require abandonment or delays in developing new mining properties.

Title Matters

The acquisition of title to mineral concessions is a detailed and time-consuming process. Title to minerals and the surface area of mining concessions may be subject to modifications prior to issuance of a final concession. While the Company has diligently investigated title to all mineral concessions and, to the best of its knowledge, title to all of its properties is in good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

Aboriginal Land Claims

In December 1997, the Supreme Court of Canada affirmed that aboriginal groups may continue to have aboriginal title to land that their ancestors exclusively occupied and controlled at the time of the assertion of British sovereignty. First Nations and aboriginal bands have claimed aboriginal title over substantial areas of Canada as well as the United States. Depending on the facts of each case, these claims may give them the right to possess and control land or resources, or the right to compensation from the provincial government in relation to past or current infringement. While the Company's activities in Ontario are on lands covered by existing aboriginal treaties (Treaty 3 for the Rainy River Project and Treaty 9 for Northern Superior's TPK property), and the Company is not aware of any aboriginal land claims respecting those properties or its Mud Creek project in Minnesota, there can be no assurance that aboriginal land claims will not affect the Company's existing properties in the future, or its ability to renew or secure title to mineral concessions in the future.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with the laws of British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed, its financial position at that time, and the degree to which its financial and management resources would have to be allocated to a new program.

Dependence on Key Personnel

The Company's development to date has largely depended on, and in the future will continue to depend on, the services of qualified management, consultants and drilling crews to oversee and conduct the Company's exploration activities. While the Company believes that the loss of the services of any individual manager, employee, consultant or other service provider will not have a material adverse effect on the Company, the Company is dependent on the availability of qualified personnel to manage and conduct its operations. The lack of availability of qualified personnel could have a significant material adverse effect on the Company and, therefore, on the price of its shares. The Company has not taken out and does not intend to take out key-man insurance in respect of any directors, officers or other employees.

Share Price Fluctuations

In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration-stage companies such as the Company, have experienced wide fluctuations in price which have not necessarily been related

to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur.

No Dividends

Investors cannot expect to receive a dividend on their investment in the foreseeable future, if at all. Accordingly, it is unlikely that investors will receive any return on their investment in the Company's securities other than through possible capital gains.

SELECTED ANNUAL INFORMATION

The data included in the selected annual information table below is taken from the Company's annual audited financial statements which were prepared in accordance with Canadian generally accepted accounting principles.

Fiscal year ended September 30,	2010	2009	2008
Interest income	\$343,272	\$622,822	\$1,410,998
Loss on marketable securities (i)	(\$73,615)	(\$135,263)	(\$114,360)
Net loss	(\$6,782,431)	(\$3,554,854)	(\$1,036,506)
Basic and diluted net loss per share	(\$0.10)	(\$0.06)	(\$0.02)
Total assets	\$144,669,427	\$66,011,337	\$65,710,408
Total non-current future income tax liabilities	\$978,000	\$1,045,000	\$1,266,000
Cash dividends	Nil	Nil	Nil

(i) Includes unrealized losses on marketable securities that are included in net losses.

RESULTS OF OPERATIONS

Fiscal 2010

For the year ended September 30, 2010, the Company recorded a net loss of \$6,782,431 (\$0.10 per share) compared to a net loss of \$3,554,854 (\$0.06 per share) for the comparative period last year. The increase in loss was due to increases in stock-based compensation of \$2,967,355, salaries and wages of \$773,671, consulting costs of \$414,524, travel costs of \$383,287, amortization of \$89,703, regulatory and filing fees of \$86,054 and a reduction in interest income of \$279,550, offset by an increase in future income tax recovery of \$1,976,750.

For the year, stock-based compensation increased by \$2,967,355 due to a higher fair value determination on options granted or re-priced in fiscal 2010 and the recording of the value of the commitment to issue shares when compared to fiscal 2009.

Expenses, other than stock-based compensation, have increased significantly in year ended September 30, 2010, when compared to the previous year, primarily because of increased overall activity resulting in increases in salaries and wages of \$773,671 reflecting the hiring of a new President and CEO, a Vice President Operations, a Vice President and CFO, and partial staffing of the Toronto office, consulting costs of \$414,524 resulting from the hiring of additional management positions at head office, travel costs of \$383,287, amortization of \$89,703 due to amortization of assets acquired during the year and regulatory and filing fees of \$86,054 due to annual general meeting costs, increased TSX-V annual sustaining fees and a Part XII.6 tax related to the flow-through share private placement.

Interest income decreased when compared to the previous year as a result of significantly lower interest rates and less funds being available for short-term investing for most of the year.

The increase in the future income tax recovery relates to flow-through expenditures renounced in February 2010 (there were no flow-through expenditures renounced in fiscal 2009).

Fourth Quarter

For the three month period ended September 30, 2010, the Company recorded a net loss of \$1,680,560 (\$0.02 per share) compared to a net loss of \$852,475 (\$0.01 per share) for the comparative period of 2009. The increase in loss is due to increases in stock-based compensation of \$824,516, salaries and benefits of \$222,359, travel expenses of \$116,920, consulting fees of \$148,056, office and miscellaneous of \$53,162, and a decrease in interest income of \$69,672, partially offset by an increase in future income tax recovery of \$663,750.

Expenses other than stock-based compensation increased in the three-month period ended September 30, 2010 compared to the corresponding period in 2009, primarily due the factors mentioned above. Salaries and benefits increased by \$222,359 mainly due to the hiring of a new President and CEO, a Vice President Operations, and a Vice President and CFO, and partial staffing of the Toronto office. Higher travel expenses of \$116,920 and office and miscellaneous costs of \$53,162 mainly are due to increased levels of overall activity, while higher consulting fees of \$148,056 mainly reflect recruiting costs associated with the new positions hired at head office.

For the three-month period ended September 30 2010, stock-based compensation increased by \$824,516 due a higher fair value determination on more options granted and the recording of the value of the commitment to issue shares when compared to the similar period of fiscal 2009.

SUMMARY OF QUARTERLY RESULTS

Quarter	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008
Interest and miscellaneous income	\$88,076	\$115,015	\$68,987	\$71,194	\$157,748	\$123,304	\$104,004	\$237,766
Realized and unrealized gain (loss) on marketable securities	\$Nil	\$Nil	\$Nil	(\$73,615)	(\$39,600)	\$100,513	(\$16,745)	(\$179,431)
Stock-based compensation expense	\$1,245,423	\$2,271,431	\$1,480,016	\$596,607	\$420,907	\$482,669	\$1,475,246	\$247,300
Expenses, net of stock-based compensation	\$1,186,963	\$977,194	\$868,618	\$623,586	\$596,716	\$392,403	\$387,412	\$260,760
Future income tax recovery (expense)	\$663,750	\$201,000	\$1,055,000	\$278,000	\$47,000	\$113,000	\$74,000	(\$13,000)
Loss from continuing operations and net loss	(\$1,680,560)	(\$2,932,610)	(\$1,224,647)	(\$944,614)	(\$852,475)	(\$538,255)	(\$1,701,399)	(\$462,725)
Basic and diluted loss per share	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.03)	(\$0.01)

On a quarter-by-quarter basis, earnings / loss can fluctuate significantly due to the timing of stock option grants, realized and unrealized gains/losses on marketable securities, and the accounting for future income taxes primarily for flow-through expenditures renounced.

General and administrative costs have generally been within 10% of the Company's forecasted cost over the last eight quarters, with the exception of the first quarter of fiscal 2009. Costs incurred in the first

quarter of fiscal 2009 was lower than anticipated because of reduced travel expenditures and general office expenses in response to the global economic crisis. General and administrative costs for the quarter ended September 30, 2009 were higher than average because of the hiring of a new President and CEO, and the accrual for the year-end audit expense of \$65,000. As a result of recent hires and the new Toronto, Ontario office, management expects general and administrative costs to remain at a level similar to the amounts incurred in the most recent two quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital position of \$70,699,895 at September 30, 2010, compared to \$16,605,455 at September 30, 2009 and \$59,638,088 at June 30, 2010. The working capital position at September 30, 2010 includes cash and cash equivalents of \$71,870,010. The Company does not have any asset-based commercial paper investments.

During the financial year ended September 30, 2010, the Company issued a total of 17,705,459 common shares for net cash proceeds of \$79,628,730, reflecting the following transactions:

- 1,191,959 common shares were issued for proceeds of \$1,635,413, pursuant to the exercise of stock options;
- 25,000 common shares were issued for proceeds of \$177,500, pursuant to the exercise of warrants;
- 2,924,500 common shares were issued at \$2.82 per share pursuant to a flow-through private placement, for net proceeds of \$7,614,815;
- 11,114,000 common shares were issued for net proceeds of \$51,514,678, in a bought-deal private placement of 11,114,000 units at \$4.95 per unit. Each unit was comprised 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 share, for a period of 24 months; and
- 2,450,000 common shares were issued at \$8.18 per share pursuant to a flow-through private placement for net proceeds of \$18,686,324.

The Company paid \$21,175,023 on mineral-property exploration and acquisition costs, net of working capital changes, \$421,211 on equipment purchases, and used \$3,575,792 on operating activities during the year ended September 30, 2010.

The Company incurred \$6,928,941 on mineral property acquisition, net of working capital changes, \$163,832 on equipment purchases, and used \$1,298,854 on operating activities during the three-month period ended September 30, 2010.

Receivables of \$668,754 as at September 30, 2010 were \$495,243 above the prior-year receivables balance of \$173,511. The September 30, 2010 receivables were comprised of harmonized sales tax receivable of \$655,784 and other receivables of \$12,970. At September 30, 2009, receivables were comprised of goods and services tax receivable of \$155,320 and other receivables of \$18,191.

Accounts payable and accrued liabilities of \$1,922,205 as at September 30, 2010 were \$442,284 above the prior-year payables balance of \$1,479,921. The increase was the result of increased exploration costs due to an overall increase in drilling and related activities.

Management believes the Company has adequate working capital to carry out engineering and exploration activities planned for the Rainy River Project, to meet its first year earn-in obligations under the TPK option agreement and to cover administrative costs over the next fiscal year. The Company expects its average spending for engineering and exploration activities to range between \$3,000,000 and \$4,000,000 per month during calendar 2011, compared to approximately \$1,765,000 in fiscal 2010. Increased spending levels planned for 2011 reflect sustained exploration drilling from levels achieved in fiscal 2010, combined with scoping-related activities on the Rainy River Project in calendar 2011, and planned payments relating to the TPK property. Scoping activities planned for 2011 include engineering and advanced (underground) exploration costs of approximately \$1.3 million per month, while earn-in spending requirements associated with the TPK property represent \$1.8 million in total calendar-year disbursements. Together, these elements represent new activities and incremental spending requirements for the Company in 2011. Cash disbursements for general and administrative expenditures are expected to average

approximately \$875,000 per month during calendar 2011, compared to approximately \$274,000 per month in fiscal 2010. This planned increase reflects labour, travel, office, and other costs, and is in line with the increased level of site personnel hired, and an increased level of corporate resources and capacity, both of which are necessary to advance with project scoping, and lead the Company through feasibility and toward the development of the Rainy River Project. Depending on the development of the business, the Company may need to raise additional cash for working capital or other expenditures. Presently, the Company has no revenues other than interest on its cash deposits, and meets its cash requirements through private placements, the exercise of options and warrants, if any, and the sale of available investments and marketable securities.

CONTRACTUAL OBLIGATIONS

<i>Contractual Obligations</i>	<i>Payments Due by Period</i>				
		<i>Less than</i>	<i>1-3</i>	<i>4-5</i>	<i>After</i>
	<i>Total</i>	<i>1 year</i>	<i>years</i>	<i>years</i>	<i>5 years</i>
<i>Long Term Debt</i>	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Capital Lease Obligations</i>	-	-	-	-	-
<i>Operating Leases</i>	40,490	17,577	16,829	6,084	-
<i>Purchase Obligations</i>	-	-	-	-	-
<i>Other Long Term Obligations</i>	797,760	214,040	338,040	245,680	-
<i>Total Contractual Obligations</i>	\$ 838,250	\$ 231,617	\$ 354,869	\$ 251,764	\$ -

Obligations related to operating leases principally reflect vehicle leases. Long-term obligations reflect office lease commitments. As at September 30, 2010, the Company did not have any commitments relating to purchase orders or other contracts.

The Company has a commitment to issue 50,000 common shares as a signing bonus to the Company's Vice President and Chief Financial Officer, in accordance with his employment agreement. The commitment will be due upon the one-year anniversary of the appointment of the Vice President and Chief Financial Officer, on May 18, 2011.

As at September 30, 2010, the Company has a commitment to incur \$18,361,000 of flow-through expenditures by December 31, 2011. This commitment arises from the agreement made in the course of a flow-through share financing undertaken during fiscal 2010.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is required to make certain cash and share option payments and private placement subscriptions as well as incur exploration costs to maintain certain of its mineral properties in good standing. These payments and costs are at the Company's discretion and are based upon available financial resources and the exploration merits of the mineral properties which are evaluated on a periodic basis.

As disclosed in the contractual obligations table above, the Company has commitments with respect to office rental agreements and operating leases for vehicles, totaling \$838,250 over the next five years.

TRANSACTIONS WITH RELATED PARTIES

During the financial year ended September 30, 2010, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$90,000 (2009 - \$120,000) to a company controlled by Nelson W. Baker, former Vice-Chair of the Board of Directors who was also formerly the Company's President and Chief Executive Officer;
- (b) paid or accrued consulting fees of \$60,000 (2009 - \$60,000) to a company controlled by James G. Grinnell, the Company's former Chief Financial Officer to July 4, 2010, who is now the Company's Assistant Controller;
- (c) paid or accrued consulting and other fees, included in exploration costs, of \$163,684 (2009 - \$38,703) and other consulting fees of \$120,000 (2009 - \$80,000) to a company controlled by Stuart Averill, the Company's former Vice President, Exploration (having resigned from that position in October 2010), who is also a director;
- (d) paid or accrued consulting fees of \$120,000 (2009 - \$80,000) to a company controlled by Gerald J. Shields, the company's Vice President, Administration; who is also a director; and
- (e) paid or accrued directors fees of \$78,500 (2009 - \$nil) to Dale Peniuk (\$33,000), Leo Berezan (\$29,250), Richard Pettit (\$8,875) and Jim Excell (\$7,375), who are independent directors of the Company.

As at September 30, 2010, accounts payable and accrued liabilities included \$67,321 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.

INVESTOR RELATIONS

During the year ended September 30, 2010, the Company paid or accrued for promotion and investor relations services totaling \$191,321 (2009 - \$134,936).

SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the Company:

- a) issued 303,667 common shares pursuant to exercise of stock options for proceeds of \$619,334;
- b) issued 100,000 common shares and paid \$200,000 pursuant to its obligations under existing mineral-property option agreements;
- c) Issued 589,550 common shares pursuant to the exercise of warrants for proceed of \$4,185,805;
- d) granted 500,000 stock options to new employees to acquire common shares exercisable at \$9.15 per option for a period of 5 years, subject to vesting provisions; and
- e) announced the proposed issuance on a bought-deal basis by way of a private placement, of 5,140,000 common shares of the Company at a price of \$12.65 per share, for gross proceeds of approximately \$65 million. In addition, granted an option to the underwriters to increase the size of the offering by up to an additional 790,000 common shares of the Company, for additional gross proceeds of up to \$10 million. This proposed transaction is subject to approval by the TSX-V.

PROPOSED TRANSACTIONS

As described under the Subsequent Events heading above, on December 14, 2010, the Company announced the proposed issuance, on a bought-deal basis, by way of a private placement, of 5,140,000 common shares at \$12.65 per share, with an option to increase the size of the offering by up to an additional 790,000 common shares, for gross proceeds of \$65 million, plus additional gross proceeds of up to \$10 million. The proposed transaction is subject to approval by the TSX-V, and is expected to close in January 2011. Projected fees associated with this offering are approximately \$3.75 million.

There were no further or unreported proposed transactions as at December 14, 2010.

CHANGES IN ACCOUNTING POLICIES

New accounting pronouncements – applied

Amendment to Financial Instruments – Disclosures

The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure of 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”).

New accounting pronouncements – to be applied

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board 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 this will require the restatement for comparative purposes of amounts reported for interim periods within fiscal 2011, and for the year ended September 30, 2011.

The Company has a structured IFRS transition or implementation plan, which includes three key stages:

1. Identification of the scope and a project work plan outlining potential conversion issues applicable to the mining industry. This phase assigns responsibilities for each of the identified issues, estimates the time, duration and costs associated with each major deliverable within the plan, and presents an overall project timeline and percentage-of-completion reporting from key responsible persons. This stage is underway and is expected to be completed by February 2011.
2. Identification of the significant accounting policies that relate to each of the major conversion issues applicable to the Company. This stage identifies the changes to the accounting policies that will be required under IFRS and involves drafting position papers on each technical issue, including the validation of positions with the Company’s auditors. This stage is expected to be completed by August 2011.
3. Determining the mapping between Canadian GAAP and IFRS, by account, and the generation of adjusting journal entries and recording thereof, in order to generate a reconciled IFRS opening balance sheet as at October 1, 2010. This stage is expected to be completed by the end of September 2011.

Management continues to make successful IFRS conversion a high priority, and has committed to taking a structured approach to the required changes. Transition team roles are being identified, and responsibilities are being determined. At this stage, key areas of consideration are primary conversion requirements, start

and end dates for tasks, estimations of time requirements, and measurement and reporting of percentage of completion of task requirements. Management has identified the tools required to ensure the success of the conversion, as well as the external consultants needed to advise the Company throughout the project.

As part of the first stage of its IFRS transition plan, the Company has begun analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all accounting policies, the initial key areas of assessment include:

- Exploration and evaluation expenditures;
- Property, plant and equipment;
- Accounting for income taxes;
- Stock-based compensation; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including the implication of changes to accounting policies and processes, financial statement note disclosures on information technology, internal controls, contractual arrangements and employee training.

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 standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently.

FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of short term deposits, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. Marketable securities and investments are adjusted to fair value at each reporting period.

At September 30, 2010, cash and cash equivalents consists of:

	<u>2010</u>	<u>2009</u>
Cash	\$ 5,623,194	\$ 299,234
Guaranteed investment certificates	<u>66,246,816</u>	<u>7,263,357</u>
Total	\$ 71,870,010	\$ 7,562,591

The Company is not subject to significant interest and credit risk arising from these instruments and the Company does not use any derivative financial instruments.

Foreign Currency Risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables and accounts payable and accrued liabilities that are denominated in foreign currencies; however, management believes the risk is not currently significant as less than 0.1% of the Company's assets and none of its liabilities as at September 30, 2010 are denominated in foreign currencies.

Interest Rate Risk

At September 30, 2010, the Company has cash and cash equivalents of \$71,870,010 and no debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. A 1% change in interest rates would have an effect of approximately \$718,700 on interest income for the fiscal year.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at December 14, 2010, the Company had the following common shares, warrants and stock options outstanding:

Common Shares	76,212,566
Bonus Shares committed	50,000
Warrants	4,942,450
Stock Options	5,416,040
Diluted shares outstanding	86,621,056

Not included in the diluted shares outstanding amount are the 363,000 common shares which the Company may be required to issue as part of existing mineral property option agreements or the up to 5,930,000 common shares to be issued in connection with the proposed private placement announced December 14, 2010.

CAUTIONARY NOTES

Certain statements included in this MD&A contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of Rainy River Resources Ltd. and its current and proposed mineral projects; the future prices of gold and other precious and base metals; the estimation of mineral reserves and resources; the realization of mineral reserve estimates; timing of updated technical report and scoping study and preliminary economic assessment; expected content of scoping study and preliminary economic assessment; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of mining operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and mining risks; uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of gold and other precious and base metals; increased competition in the mining industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those

created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable, but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for gold develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.