

**RAINY RIVER RESOURCES LTD.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED
MARCH 31, 2011**

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated May 10, 2011 includes financial information from, and should be read in conjunction with, the unaudited interim consolidated financial statements of Rainy River Resources Ltd. (the "Company" or "Rainy River Resources") for the three and six months ended March 31, 2011. 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. 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 Gold Project"). The Company does not have any assets or mineral properties that are in production; however, on February 24, 2011, the Company announced an updated National-Instrument 43-101 ("NI 43-101") compliant gold and silver resource estimate for the Rainy River Gold Project. See "PROPERTY HIGHLIGHTS – Rainy River Gold 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 about the Company is available on SEDAR at www.sedar.com.

CORPORATE ACTIVITIES

On January 7, 2011, the Company announced that it had closed its private placement on a "bought-deal" basis of 5,930,000 common shares of the Company at \$12.65 per share for gross proceeds of \$75,014,500. This transaction was approved by the TSX-V, and in connection with the offering, the underwriters were paid a cash commission of approximately \$3.75 million.

On February 24, 2011, the Company announced an updated mineral resource statement for its Rainy River Gold Project. Mineral resources were estimated by SRK Consulting (Canada) Inc. ("SRK") and are reported in accordance with Canadian Securities Administrators NI 43-101. Mineral resources above a 450-metre depth from the surface are considered to be amenable to open pit extraction, whereas mineral resources below this are considered to be amenable to underground extraction. See "PROPERTY HIGHLIGHTS – Rainy River Gold Project" for a summary of the estimate.

As of March 31, 2011, the Company had cash and cash equivalents of approximately \$69.8 million and short-term investments of \$63.2 million.

PROPERTY HIGHLIGHTS

Rainy River Gold Project

In June 2005, the Company acquired, from Nuinsco Resources Limited ("Nuinsco"), the right to earn a 100% interest in the Rainy River Gold Project, then 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, known as the 17 and 433 Zones, under approximately 23 metres of glacial till within an auriferous 6 km² caldera sequence consisting of pyritized felsic volcanic rocks. As of March 31, 2011, diamond drilling totalled 950 holes for a combined (Nuinsco / Rainy River Resources) meterage of 416,468 metres of drilling on the Rainy River Gold Project.

During this timeframe, the Company discovered the Beaver Pond Zone, South Zone, Cap Zone, Gap Zone, 17 East Extension Zone, ODM Zone and down-dip extensions to the 433 Zone.

Two resource estimates were completed between the years 2005 and 2009, and a NI 43-101-compliant updated resource estimate was completed in February 2010, by SRK. On March 2, 2010, the Company announced the updated resource estimate, which provided 2.37 million ounces of gold as indicated resources and 2.66 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 “qualified persons” and “independent” of the Company as defined in NI 43-101.

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

Progress during the quarter and six months ended March 31, 2011

During the quarter ended March 31, 2011, the Company completed 59 diamond drill holes representing 28,116 metres of drilling in the three months reported. On March 30, 2011, the Company announced an expanded diamond drill program for the remainder of 2011; as a result, the Company is in the midst of mobilizing four additional diamond drill rigs, adding to the six rigs already on site. These ten drill rigs should be capable of completing a total of 170,000 metres of diamond drilling by December 31, 2011, which would represent an incremental 60,000 metres above the original drilling target for 2011. The objective of the expanded program is to focus additional resources on further infill drilling within the deposit, and to further define the potential for underground mining. The revised exploration program will dedicate 60% of the drilling towards regional exploration, 20% to define potential underground resources, and 20% for further infill drilling.

On February 24, 2011, the Company announced an updated mineral resource statement for the Rainy River Gold Project. That mineral resource statement was prepared by Dorata El-Rassi, P.Eng and Glen Cole, P.Geo, both of SRK, and both “qualified persons” and “independent” of the Company as defined in NI 43-101. Using a 0.35 g/t Au cut-off grade for potential open pit resources and a 2.5 g/t Au cut-off grade for potential underground resources, the Company reported 3.42 million ounces of gold in the measured and indicated categories and 3.17 million ounces of gold in the inferred category.

Work on a Preliminary Economic Assessment (“PEA” or “Scoping Study”) commenced during the quarter. The PEA will investigate various mine development scenarios that are based on the February 24, 2011 NI 43-101 resource estimate for the project, and will report scoping-level economics on an optimized mining plan. The PEA will include an evaluation of mine development and scheduling, mineral processing, infrastructure, environmental and permitting considerations and estimations for operating and capital expenses for the project. As the quarter was ending, the Company was soliciting proposals from engineering and environmental firms, to complete the PEA, which is expected to be completed in the third quarter of 2011.

Permitting for the Advanced Exploration program continued in the quarter. The Advanced Exploration program has been deferred until a project Scoping Study can be completed. The decision to initiate the Advanced Exploration program will be made after re-evaluating its design and scope based on the results of the mine optimization studies.

During the quarter, the Company continued with metallurgical testing at SGS Lakefield’s laboratory in Lakefield, Ontario with the program designed to evaluate and optimize a processing flow sheet that would be used on a commercial scale at the Rainy River Gold Project. The Company engaged the services of AMEC Earth and Environmental to conduct and support environmental baseline studies and advise on mine permitting matters relating to the Rainy River Gold Project. A report on pre-feasibility open-pit slope designs was delivered to the Company by Klohn Crippen Berger. A draft report on the environmental baseline studies at the Rainy River Gold Project was also provided to the Company by Klohn Crippen Berger. A final report is expected in the second quarter of this year.

Exploration costs on the Rainy River Gold Project for the quarter ended March 31, 2011 totaled \$6.3 million, including \$3.5 million on diamond drilling, \$1.0 million on assaying and field expenses, \$0.4 million on geologists and consultants, \$0.3 million on studies, and \$1.1 million on capitalized compensation and other costs. Compensation costs (\$1,056,844) comprising stock-based compensation expense and salaries for project personnel and a portion of management personnel, who directly support the Rainy River Gold Project, were allocated to exploration costs for the quarter. Other costs reflect permits and filing fees of \$21,807 that are included in quarterly exploration costs for the project. Drilling for the quarter was concentrated primarily on regional exploration targets, with a limited amount of drilling designed to further test the new GAP Zone, between the Beaver Pond and ODM Zones. Ground surveys included a new ground-based magnetic survey.

Exploration costs on the Rainy River Gold Project for the six months ended March 31, 2011 totaled \$13.2 million, including \$7.2 million on diamond drilling, \$2.7 million on assaying and field expenses, \$0.8 million on studies (including approximately \$450,000 for socio-environmental baseline studies, \$215,000 for preliminary geotechnical studies, \$78,000 for a structural geology study and gyro surveying, and \$60,000 associated with a preliminary economic assessment), \$0.7 million on geologists and consultants, and \$1.8 million on capitalized compensation and other costs. Capitalized compensation, described in the quarterly discussion above, totaled approximately \$1.78 million in the six month period, while other costs represent \$42,057 incurred on permits and filing fees. For the six month period, drilling and exploration activities were focused on completing the calendar 2010 infill drilling campaign through December 2010 and, in the most recent three months, drilling was oriented toward regional targets as described in the quarterly discussion above.

TPK Property

Effective September 9, 2010, the Company entered into an agreement whereby Northern Superior Resources Inc. ("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-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 by April 30, 2013, 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 has completed its year-one obligations of incurring exploration expenditures of \$1,400,000, making the cash payments totaling \$1,600,000, and completing a private placement of common shares of Northern Superior of \$500,000.

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 Gold Project, 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 Gold 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, followed by diamond drilling of the RC drilling-defined targets, which commenced in November 2010.

Progress during the quarter and six months ended March 31, 2011

On February 4, 2011 and April 13, 2011, the Company and Northern Superior announced assay results from diamond drilling conducted on Targets 2 and 3 of the TPK Property. Refer to the associated press releases for specific results.

During the quarter ended March 31, 2011, the Company completed a total of 2,900 metres of diamond drilling. In addition, the Company undertook a 65 line kilometer IP geophysical survey to better target diamond drilling. Ground magnetic surveys, designed to better interpret the structural geology, were also completed over the newly cut grid.

During the three months ended March 31, 2011, the Company incurred \$2.552 million in exploration expense on the TPK property, including \$0.4 million on drilling and assaying, \$0.9 million on field expenses, \$0.7 million on air freight, \$0.4 million on road building, and \$0.2 million on geologists, consultants and studies.

During the six months ended March 31, 2011, the Company incurred \$4.064 million in exploration expense on the TPK property, including \$0.9 million on drilling and assaying, \$1.2 million on field expenses, \$1.2 million on air freight, \$0.4 million on road building, and \$0.4 million on geologists, consultants and studies.

The \$4,063,934 in exploration expenditures incurred during the six months ended March 31, 2011 represent the Company's cumulative exploration costs incurred on the TPK Property since the September 2010 agreement with Northern Superior. This cumulative expenditure amount substantially exceeds the level of \$1.4 million in exploration expense set forth in the agreement as the minimum required exploration expense that the Company must incur by April 30, 2011.

The Company is the operator of the TPK Project, and the current exploration program is being supervised by Kerry Sparkes, P.Geo, Vice-President Exploration of the Company, a "qualified person" as defined by NI 43-101.

Mud Creek Property

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 Mud Creek 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 Gold Project, no further work was conducted on the Mud Creek Property until June 2010, when the recommended airborne survey was performed.

In the quarter ended March 31, 2011, the Company made payments relating to the renewal of exploration licences and preparations were being made 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" above 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 NI 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 NI 43-101.

RISKS AND UNCERTAINTIES

In addition to the usual risks associated with an investment in a business in the exploration stage of development, management and the directors of the Company believe that there are particular risk factors that should be considered in any evaluation of the Company. An investment in the Company may not be suitable for all investors. Readers are urged to review the detailed disclosure concerning the material risks and uncertainties associated with the Company's business set out in its annual MD&A dated December 14, 2010, which is available on SEDAR under the Company's filer profile (www.sedar.com).

RESULTS OF OPERATIONS

Six months ended March 31, 2011

For the six month period ended March 31, 2011, the Company recorded a net loss of \$7,045,360 (\$0.09 per share) compared to a net loss of \$2,169,261 (\$0.03 per share) for the comparative period of 2010. The increase in loss is due to increases in stock-based compensation of \$4,165,240, salaries and benefits of \$1,479,667, travel expenses of \$284,419, consulting fees of \$254,924, office and miscellaneous costs of \$116,808, and higher rent of \$80,568, partially offset by higher future income tax recovery recorded of \$969,625, higher interest income of \$527,247, and lower unrealized losses on marketable securities of \$73,615.

Expenses other than stock-based compensation increased in the six month period ended March 31, 2011 compared to the corresponding period in 2010, primarily due the factors mentioned above. Salaries and benefits increased by \$1,479,667 mainly due to bonuses paid to management and employees related to calendar year 2010, continued staffing of the Toronto office and directors' fees paid during the period. Higher travel expenses of \$284,419 and office and miscellaneous costs of \$116,808 are mainly due to increased levels of overall activity, while higher consulting fees of \$254,924 are due to a termination payment to a former officer and a bonus paid to a consultant, who is an officer and director.

For the six month period ended March 31 2011, stock-based compensation increased by \$4,165,240 due to 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 2010.

Current Quarter

For the three month period ended March 31, 2011, the Company recorded a net loss of \$3,945,908 (\$0.05 per share) compared to a net loss of \$1,224,647 (\$0.02 per share) for the comparative period of 2010, principally reflecting higher stock-based compensation expense of \$2,875,393 and higher G&A costs of \$843,190, partly offset by higher future income tax recovery recorded (\$587,375) and higher interest income earned (\$409,947). G&A costs are above the prior-year comparative period by \$843,190, principally reflecting increases in salaries and benefits (\$545,661), consulting (\$103,995), travel (\$112,200) and office and rent expenses (\$66,559). Salaries and benefits increased mainly due to the accrual of bonuses payable to management and employees related to calendar year 2011, continued staffing of the Toronto office and directors' fees accrued during the quarter. Higher travel expenses and office and rent costs are mainly due to increased levels of overall activity, while higher consulting fees of \$103,995 reflect an increase in employee recruiting and relocation costs.

For the three-month period ended March 31 2011, stock-based compensation increased by \$2,875,393 due to 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 2010.

SUMMARY OF QUARTERLY RESULTS

Quarter	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009
Interest and miscellaneous income	\$478,934	\$188,494	\$88,076	\$115,015	\$68,987	\$71,194	\$157,748	\$123,304
Realized and unrealized gain (loss) on marketable securities	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	(\$73,615)	(\$39,600)	\$100,513
Stock-based compensation expense	\$4,355,409	\$1,886,454	\$1,245,423	\$2,271,431	\$1,480,016	\$596,607	\$420,907	\$482,669
Expenses, net of stock-based compensation	\$1,711,808	\$2,061,742	\$1,186,963	\$977,194	\$868,618	\$623,586	\$596,716	\$392,403
Future income tax recovery	\$1,642,375	\$660,250	\$663,750	\$201,000	\$1,055,000	\$278,000	\$47,000	\$113,000
Loss from continuing operations and net loss	(\$3,945,908)	(\$3,099,452)	(\$1,680,560)	(\$2,932,610)	(\$1,224,647)	(\$944,614)	(\$852,475)	(\$538,255)
Basic and diluted loss per share	(\$0.05)	(\$0.04)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.01)	(\$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.

Expenses net of stock-based compensation (“G&A costs”) have generally been as expected over the last eight quarters. G&A costs of \$1,711,808 for the quarter ended March 31, 2011 were lower than the preceding quarter by approximately \$350,000, mainly reflecting lower salaries and benefits costs (\$376,000), partially offset by higher net costs in other line items. Lower salaries and benefits reflect the impact of year-end bonuses recorded and paid in the preceding quarter (approximately a \$575,000 impact, net of bonuses accrued in the current quarter), partly offset by the impact of salary adjustments to a number of employees as of January 2011, and the impact of new starts, reflecting the ongoing staffing of the Toronto office (approximately \$200,000 impact). Higher expenses than the preceding quarter, incurred in the latest quarter ended, include higher regulatory and filing fees (\$44,000), mainly reflecting the timing of TSX listing fees incurred, and higher audit and legal costs (\$35,000), mainly reflecting quarterly review fees recorded and payable to the Company’s auditors. Lower quarterly expenses compared to the preceding quarter were incurred for consulting (\$23,000), mainly reflecting the impact of a contracted project manager who left the Company in December 2010, and for office and miscellaneous costs (\$37,000), reflecting the timing of purchases of software and office supplies. The increasing trend seen in G&A costs over the last 8 quarters reflects a sustained ramp-up in corporate activities, supporting continued exploration success and the advancement of the Rainy River Gold Project from an early-stage exploration target to a 6.6-million ounce resource on which management expects to complete a scoping study.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital position of \$131,809,322 at March 31, 2011, compared to \$70,699,895 at September 30, 2010. The working capital position at March 31, 2011 includes cash and cash equivalents

of \$69,789,339 and short-term investments of \$63,181,851. The Company invests surplus cash only in conservative positions, with major financial institutions.

During the six month period ended March 31, 2011, the Company issued a total of 8,147,317 common shares for net cash proceeds of \$84,490,329, reflecting the following transactions:

- 524,567 common shares were issued for proceeds of \$1,361,659, pursuant to the exercise of stock options;
- 1,692,750 common shares were issued for proceeds of \$12,018,525, pursuant to the exercise of warrants; and
- 5,930,000 common shares were issue for net proceeds of \$71,110,476 pursuant to the closing of a private placement.

As indicated in the Corporate Highlights section, on January 7, 2011, the Company closed the 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. This increased the Company's cash and cash equivalents position to approximately \$135 million as at January 7, 2011.

The Company spent \$16,999,407 on mineral-property exploration and acquisition costs, net of working capital changes, \$239,538 on equipment purchases, and used \$4,332,055 on operating activities during the six month period ended March 31, 2011.

Receivables of \$2,113,921 as at March 31, 2011 were \$1,445,167 above the September 30, 2010 receivables balance of \$668,754, with the increase mainly reflecting the timing of harmonized sales tax remittances associated with the overall increased activity, including large drilling and related invoices processed during the current quarter. The March 31, 2011 receivables were comprised of harmonized sales tax receivable of \$2,046,129 and other receivables of \$67,792. At September 30, 2010, receivables were comprised of harmonized sales tax receivable of \$655,784 and other receivables of \$12,970.

Accounts payable and accrued liabilities of \$3,423,361 as at March 31, 2011 were \$1,501,156 above the September 30, 2010 payables balance of \$1,922,205. The increase reflects increased exploration costs due to an overall increase in drilling and related activities as a result of the work commitment on the TPK Property, combined with the accrual of bonuses payable to management and staff for calendar 2011.

In December 2010, the Company posted a letter of credit in the amount of \$2,040,582 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 Gold Project. The permit application process required that the letter of credit be posted before filing the project documentation with the provincial Ministry of Northern Development, Mines and Forestry. A portion of the Company's short-term investments is used to secure this letter of credit, in the amount of \$2,040,582.

Management believes the Company has adequate working capital to carry out engineering and exploration activities planned for the Rainy River Gold Project, to meet its ongoing 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 \$5,000,000 per month during calendar 2011, while G&A costs are expected to range between \$1,000,000 and \$1,500,000 per month during calendar 2011. 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

The Company is party to certain contracts relating to operating leases for equipment and for office space, as disclosed in the Company's annual MD&A. As at March 31, 2011, there were no significant changes to the Company's commitments as previously reported.

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 was approved by shareholders at the Company's Annual General Meeting on April 6, 2011, and will be due upon the one-year anniversary of his appointment, on May 18, 2011.

As at March 31, 2011, the Company has a commitment to incur \$3,581,000 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 at March 31, 2011, the Company has option agreements in relation to patented mineral rights in various townships in the Rainy River District that require cash payments totaling \$3,658,500 (\$2,373,500 paid) and the issuance of a total of 1,677,000 common shares (1,311,000 issued at a total value of \$5,244,195) over the period to June 2014.

As at March 31, 2011, the Company has an option agreement with respect to the TPK property, requiring it to purchase two future private placements for \$500,000 each in Northern Superior shares, and to incur exploration costs of approximately \$9.4 million, over a period to April 30, 2013 (\$4,063,934 incurred).

TRANSACTIONS WITH RELATED PARTIES

During the six month period 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 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 and other fees, included in exploration costs, of \$201,562 (2010 - \$83,969) and other consulting termination fees of \$130,000 (2010 - \$60,000) to ODM, 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;
- (c) paid or accrued consulting fees of \$167,500 (2010 - \$60,000), including a performance bonus of \$75,000 (2010 - nil), to a company controlled by Gerald J. Shields, the Company's Vice President and General Counsel, who is also a director; and
- (d) paid or accrued directors fees of \$108,722 (2010 - \$nil) to Dale Peniuk (\$31,356), Stuart Averill (\$13,726), Leo Berezan (\$23,824), Richard Pettit (\$23,142) and Jim Excell (\$16,674), who are all directors of the Company.

As at March 31, 2011, accounts payable and accrued liabilities included \$15,692 due to related parties (September 30, 2010 - \$67,321).

All of the foregoing 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 six month period ended March 31, 2011, the Company paid or accrued expenses for promotion and investor relations services totaling \$61,442 (2010 - \$113,185).

SUBSEQUENT EVENTS

None to report.

CHANGES IN ACCOUNTING POLICIES

New accounting pronouncements – to be applied

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook - Accounting for the fiscal years beginning on or after January 1, 2011, when it will start to apply International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed as they will not be applied by the Company.

International Financial Reporting Standards

The Company is in the process of converting its basis of accounting from Canadian GAAP (“CGAAP”) to IFRS, as required by the Canadian Accounting Standards Board for fiscal years beginning on or after January 1, 2011. The Company’s first IFRS-compliant financial statements are expected to be released for the quarter ending December 31, 2011. The transition date for the Company will be October 1, 2010, and for comparison purposes, transition will require the conversion from a CGAAP to an IFRS basis, of the balance sheets as at September 30, 2010 and September 30, 2011, and the interim and annual statements of income and cash flows, for the fiscal year ending September 30, 2011.

Update on IFRS Conversion Project

The Company has established an IFRS project team, consisting of the Company’s Controller, and the Vice President and CFO, which reports regularly to the Audit Committee, to ensure a steady and structured progression toward IFRS implementation. The Company has identified four phases to the implementation plan, as follows:

1. Phase 1 - Preliminary diagnostic and project-plan development;
2. Phase 2 - Detailed analysis of key IFRS conversion issues;
3. Phase 3 - Implementation; and
4. Phase 4 - Post-implementation review.

Phase 1 is complete: the IFRS project team has completed initial scoping for the conversion, and has compiled a detailed project work plan, including outlines of conversion issues, time lines, milestones and deliverables.

Phase 2 is substantially advanced. The IFRS project team has identified the principal accounting impacts, and where accounting changes will be required, the team has drafted position papers on each technical issue. This phase is expected to be completed by July 2011.

Phase 3 – Implementation is in progress. The IFRS project team and the Audit Committee are currently focussed on discussing and approving IFRS-compliant accounting policies, in addition to the format and content of the interim condensed financial statements for the interim period ending December 31, 2011 and the year ending September 30, 2012. In parallel, work continues toward the generation of a reconciled IFRS opening balance sheet as at October 1, 2010, and comparative financial statements for the interim period ended December 31, 2010. This phase is expected to be completed by the end of September 2011.

Phase 4 – Post-implementation review will consist of ongoing monitoring of emerging IFRS standard changes, particularly those that deal with accounting matters applicable to the mining industry.

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. Restricted cash is invested in a guaranteed investment certificate with a major financial institution, and its carrying value approximates its fair value.

At March 31, 2011 and September 30, 2010, cash and cash equivalents consist of:

	March 31, 2011	September 30, 2010
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>

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 March 31, 2011 are denominated in foreign currencies.

Interest Rate Risk

At March 31, 2011, the Company has cash and cash equivalents of \$69,789,339, short term investments of \$63,181,851, restricted cash of \$2,098,183, and no debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by leading Canadian banks. 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 \$1.3 million on interest income in one year.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at May 10, 2011, the Company had the following common shares, warrants and stock options outstanding:

Common Shares	83,591,000
Bonus Shares committed	50,000
Warrants	3,835,250
Stock Options	6,796,807
Diluted shares outstanding	94,273,057

Not included in the diluted shares outstanding amount are the 366,000 common shares which the Company may be required to issue as part of existing mineral property option agreements.

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 reports 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.