

**RAINY RIVER RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FOR THE THREE AND TWELVE MONTHS ENDED**  
**SEPTEMBER 30, 2011**

**INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") dated November 8, 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 twelve months ended September 30, 2011. It should be noted that, on September 29, 2011, the Company filed a notice with the Ontario, Alberta and British Columbia Securities Commissions to change the fiscal year end of the Company from September 30 to December 31. As a result, the Company's transition year for financial reporting purposes will be for the fifteen months ending December 31, 2011, and the Property Highlights and Results of Operations sections in this MD&A include discussions about the results of operations of the Company for the three and twelve months ended September 30, 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 65 kilometers west of Fort Frances in the southwest corner of northern Ontario (the "Rainy River Gold Project", or "RRGP"). The Company does not have any assets or mineral properties that are in production; however, on June 29, 2011, the Company announced an updated Canadian Securities Administrators 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 are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "RR". The Company was incorporated under the laws of British Columbia and is a reporting issuer in British Columbia, Alberta and Ontario.

Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**CORPORATE ACTIVITIES**

On January 7, 2011, the Company announced that it had closed a 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 (net proceeds of approximately \$71.3 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 were reported in accordance with NI 43-101. See "PROPERTY HIGHLIGHTS" for a summary of the estimate.

On June 29, 2011, the Company announced an updated mineral resource statement for its Rainy River Gold Project. Mineral resources were estimated by SRK and are reported in accordance with NI 43-101. The updated resource estimate provided 4.41 million ounces of gold in the measured and indicated category, and 2.33 million ounces of gold in the inferred category. See "PROPERTY HIGHLIGHTS" for a summary of the estimate.

On July 8, 2011, the Company invested \$500,000 in a private placement of 1,388,889 common shares of Northern Superior Resources Inc. (“Northern Superior”). This investment was made in accordance with the existing option agreement relating to the TPK Property in northern Ontario. Refer to the “PROPERTY HIGHLIGHTS” section below.

On September 28, 2011, the Company’s shares commenced trading on the Toronto Stock Exchange (the “TSX”) and in connection therewith, ceased trading on the more junior TSX Venture Exchange (TSX-V”). This graduation followed a successful application for listing filed with the Toronto Stock Exchange, and the filing of the Company’s Annual Information Form.

On October 11, 2011, the Company announced the appointment of Mr. Michael Mutchler as Chief Operating Officer. Mr. Mutchler is a mining engineer who brings over 30 years of experience in mine operations and large-scale mine project development to the Company’s management team.

As of September 30, 2011, the Company had on hand cash and cash equivalents of approximately \$48 million and short-term investments of approximately \$64 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 northwestern 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 km<sup>2</sup> caldera sequence consisting of pyritized felsic volcanic rocks. As of September 30, 2011, diamond drilling totalled 1,143 holes for a combined (Nuinsco / Rainy River Resources) metrage of 512,284 metres of cumulative drilling on the Rainy River Gold Project.

Since acquiring the interests from Nuinsco, the Company has discovered the Beaver Pond, South, CAP, and Gap Zones, along with the ODM Zone, the 17 East Extension, the Western Area, and down-dip extensions to the 433 Zone.

Three resource estimates on the Rainy River Gold Project were completed between the years 2005 and 2010.

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 twelve months ended September 30, 2011**

During the quarter ended September 30, 2011, the Company completed 108 diamond drill holes, representing 51,350 metres of drilling in the three months reported. In a news release on September 12, 2011, the Company announced the addition of one or two additional drill rigs at the RRGP. Two drill rigs were mobilized to the RRGP over the balance of the quarter, and were operating by the third week of October. With a total complement of twelve drill rigs currently operating, the Company has taken steps to endeavour to meet its expanded drill target of 170,000 metres in calendar 2011. This expanded drill target had been communicated in a press release

dated March 30, 2011, and its focus continues to be on infill drilling within the gold zones, including the addition and upgrading of resources in the deeper sections of the zones.

On February 24, 2011, the Company announced an updated resource estimate, which provided 3.42 million ounces of gold as indicated resources and 3.17 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.

On June 29, 2011, the Company announced a further 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 4.4 million ounces of gold in the measured and indicated categories and 2.3 million ounces of gold in the inferred category.

Work on a Preliminary Economic Assessment (“PEA” or “Scoping Study”) continued during the current quarter, including metallurgical test work based on large-diameter drill cores shipped and tested for grinding characteristics, and progress defining the scope of work for further geotechnical evaluations. The PEA will investigate various mine development scenarios that are based on the June 29, 2011 NI 43-101 resource estimate for the project and will report scoping-level economics on an optimized mining plan. The PEA is expected to include an evaluation of mine development and scheduling, mineral processing, infrastructure, environmental and permitting considerations, and an estimate for operating and capital expenses for the project. During the current quarter, the Company continued to work with BBA Inc. (“BBA”), which is leading the PEA, and AMEC Earth & Environmental (“AMEC”), which is providing environmental, geotechnical and permitting studies in support of the PEA. The PEA remains on target for release during the fourth calendar quarter of 2011.

The design and permitting of an advanced exploration project at the Rainy River Gold Project will be considered upon the completion of the PEA. The decision to proceed with an advanced exploration project will depend on several factors including market conditions, budget priorities and the results of the PEA study.

During the current quarter, AMEC completed the third year of baseline environmental studies at the RRGP site. The Company has continued to engage with provincial and federal agencies in preparation for potential advanced exploration and mine permitting.

Exploration costs on the Rainy River Gold Project for the quarter ended September 30, 2011 totaled \$9.6 million, including \$6.7 million on diamond drilling and assaying, \$0.8 million on technical, environmental and other studies, and \$2.1 million on capitalized compensation and other costs. Compensation costs of \$1,280,926, comprising salaries and stock-based compensation expense for project personnel and a portion of those costs for management personnel who directly support the Rainy River Gold Project, were included in exploration costs for the quarter. Drilling in the current quarter was primarily concentrated on the deeper portions of the ODM Zone near the base of the optimized pit and within the first 100 metres of the potential underground mine. The goal was to upgrade resources from the inferred to the indicated and measured resource categories. A portion of the drilling this quarter was also focussed on upgrading the CAP Zone from inferred to indicated resources, and a limited amount of drilling targeted the Western Area and the 17 Zone Eastern Extension.

Exploration costs on the Rainy River Gold Project for the twelve months ended September 30, 2011 totaled \$32.6 million, including \$21.6 million on diamond drilling and assaying, \$2.3 million on technical, environmental and other studies (including \$1.18 million for socio-environmental baseline studies, \$582,000 associated with the PEA and \$550,000 associated with geotechnical, gyro surveying and related studies), and \$8.6 million on other exploration costs, including \$2.6 million on capitalized stock-based compensation, \$3.4 million on project personnel salaries, benefits and consultants, and \$2.6 million on field expenses including equipment rentals, supplies, road building and travel costs. Through the twelve month period, the diamond drill program has been focused on upgrading the grade and continuity of the current resource base, while the regional exploration program has been successful in discovering new mineralized 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 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 is the operator of the TPK Project. As at September 30, 2011, the Company has completed its year-one obligations, and has incurred approximately 95% of the cumulative exploration obligations required to be incurred by April 30, 2012. Specifically, the Company has made the cash payments totaling \$1,600,000, has completed two private placements of common shares of Northern Superior of \$500,000 each, and has incurred cumulative exploration expenses of \$5.162 million on the TPK Property, as at September 30, 2011.

The TPK Property is located 190 km northeast of Pickle Lake, in northwestern Ontario. The 18,189-hectare property is considered to be 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 certain of the RC drilling-defined targets, which commenced in November 2010.

### **Progress during the quarter and twelve months ended September 30, 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 three months ended September 30, 2011, the Company incurred approximately \$100,000 in exploration expense on the TPK Property, mainly reflecting planning and preparation costs for the next phase of the program, which is expected to mobilize in the autumn months, in order to resume drilling after freeze-up in December 2011.

During the twelve months ended September 30, 2011, the Company incurred \$5.2 million in exploration expense on the TPK Property, including \$1.1 million on drilling and assaying, \$1.6

million on field expenses, \$1.2 million on air freight, \$0.5 million on road building, and \$0.8 million on geologists, consultants, studies and other costs.

The \$5.162 million in exploration expenditures incurred during the twelve months ended September 30, 2011 represent the Company's cumulative exploration costs incurred on the TPK Property since entering into the September 2010 agreement with Northern Superior. This cumulative expenditure amount is well advanced toward meeting the level of \$5.4 million in exploration expense set forth in the agreement as the minimum required cumulative exploration expense that the Company must incur by April 30, 2012.

### ***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 a large, previously unexplored, mineralized quartz-feldspar porphyry. Further closely-spaced till sampling combined with systematic prospecting was carried out 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.

During the quarter ended September 30, 2011, the Company made payments relating to the renewal of exploration licences on the Mud Creek Property. In the coming months, the Company plans 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 results and other technical information about the Company's mineral properties under the heading "Property Highlights" above has been prepared under the supervision of, and 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.

### **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, as set out in its Annual Information Form dated September 8, 2011, and in its annual MD&A dated December 14, 2010, both of which are available on SEDAR under the Company's filer profile ([www.sedar.com](http://www.sedar.com)).

## **RESULTS OF OPERATIONS**

### **Twelve months ended September 30, 2011**

For the twelve-month period ended September 30, 2011, the Company recorded a net loss of \$13,503,891 (\$0.17 per share) compared to a net loss of \$6,782,431 (\$0.10 per share) for the comparative period of 2010. The \$6.72 million increase in net loss is mainly due to increases in stock-based compensation of \$3,435,391, salaries and benefits of \$2,572,725, lower future income tax recovery of \$1,542,278, higher audit and legal fees of \$374,065, higher travel expenses of \$285,274, higher office and miscellaneous expenses of \$191,746, and higher rent of \$131,739, partly offset by higher interest income of \$1,316,818, and higher gains on disposal of investments and marketable securities of \$450,560.

Salaries and benefits increased \$2,572,725 mainly due to continued staffing of the Toronto office and the implementation of a bonus plan for management and employees in 2010 for fiscal 2011. The lower future income tax recovery (\$1,542,278) mainly reflects the net impact of higher flow-through expenditures renounced for tax purposes during 2011, which reduces the tax benefits of losses and other deductible expenses. The higher audit and legal fees (\$374,065) principally reflect the costs associated with graduating the Company's stock exchange listing from the TSX-V to the TSX, including the cost of documenting and evaluating the Company's internal control processes relating to financial reporting required in order to meet the certification requirements for TSX-listed issuers as prescribed under National Instrument 52-109. The higher travel expenses (\$285,274) and office and miscellaneous costs (\$191,746) are mainly due to increased levels of overall activity, in addition to the parallel running of the Vancouver and Toronto offices through to August 2011, and the expansion of the Toronto office in September, to accommodate positions that have been and will continue to be added, in support of the RRGP and associated corporate functions. Higher interest income in the twelve month period of \$1,316,818 compared to the prior year reflects the returns on the investment of most of the proceeds of the \$75-million private placement financing, which closed in early January of 2011. The higher gains on disposal of investments and marketable securities (\$450,560) reflect the net impact of the sale, during the second calendar quarter of 2011, of 2,500,000 common shares of Northern Superior for proceeds of \$956,464, which had a cost base of \$500,000.

For the twelve month period ended September 30, 2011, stock-based compensation increased by \$3,435,391 due to an increased number of options granted at a higher fair-value determination per option when compared to twelve months ended September 30, 2010.

### **Current Quarter**

For the three month period ended September 30, 2011, the Company recorded a net loss of \$2,254,123 (\$0.03 per share) compared to a net loss of \$1,680,560 (\$0.02 per share) for the comparative period of 2010, principally reflecting lower future income tax recovery recorded in the quarter (\$448,528), higher salaries and benefits (\$446,424), higher audit and legal fees (\$116,635), and higher office and miscellaneous expenses (\$111,460), partly offset by higher

interest income (\$392,289), lower consulting costs (\$122,072), and lower promotion and investor relations costs (\$30,839).

Salaries and benefits increased mainly due to continued staffing of the Toronto office and the accrual of bonuses. Higher audit and legal fees and higher office and miscellaneous expenses in the quarter reflect factors discussed above in the results for the twelve month period, particularly the impact of graduating to the TSX and the expansion of the Toronto office, both during the third calendar quarter of 2011.

For the three-month period ended September 30, 2011, stock-based compensation increased by \$61,434 when compared to the prior-year period, reflecting the timing of stock options granted and vested, and the increase in the per-option fair value when compared to 2010.

A future income tax recovery of \$215,222 was recorded for the three-month period, mainly reflecting the net impact of temporary differences between amounts deductible for accounting versus tax purposes, in the quarter.

### SUMMARY OF QUARTERLY RESULTS

Quarter	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Interest and miscellaneous income	\$480,365	\$512,297	\$478,934	\$188,494	\$88,076	\$115,015	\$68,987	\$71,194
Realized and unrealized gain (loss) on marketable securities and investments	\$Nil	\$456,464	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	(\$73,615)
Stock-based compensation expense	\$1,306,857	\$1,480,148	\$4,355,409	\$1,886,454	\$1,245,423	\$2,271,431	\$1,480,016	\$596,607
Expenses, net of stock-based compensation	\$1,642,853	\$1,830,646	\$1,711,808	\$2,061,742	\$1,186,963	\$977,194	\$868,618	\$623,586
Future income tax (expense)/recovery	\$215,222	(\$1,862,375)	\$1,642,375	\$660,250	\$663,750	\$201,000	\$1,055,000	\$278,000
Loss from continuing operations and net loss	(\$2,254,123)	(\$4,204,408)	(\$3,945,908)	(\$3,099,452)	(\$1,680,560)	(\$2,932,610)	(\$1,224,647)	(\$944,614)
Basic and diluted loss per share	(\$0.03)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)

On a quarter-by-quarter basis, loss can fluctuate significantly due to the timing of stock option grants, realized and unrealized gains/losses on marketable securities and investments, 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 show an increasing trend from the quarter ended December 31, 2009 through the quarter ended December 31, 2010, and a leveling off during the last four quarters. This increasing trend reflects an earlier ramp-up in corporate activities, supporting exploration and engineering activities aimed at preparing the Rainy River Gold Project for a

preliminary economic assessment and scoping study. Future G&A costs are expected to be in a range similar to the G&A costs incurred during the last four quarters.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company had a working capital position of \$108,754,625 at September 30, 2011, compared to \$70,699,895 at September 30, 2010 and \$121,041,819 as at June 30, 2011. The working capital position at September 30, 2011 includes cash and cash equivalents of \$48,751,922 and short-term investments of \$63,784,749. The Company invests surplus cash only in conservative positions with major financial institutions.

During the twelve-month period ended September 30, 2011, the Company issued a total of 8,246,068 common shares for net cash proceeds of \$85,844,954, reflecting the following transactions:

- 599,568 common shares were issued for proceeds of \$1,571,328, pursuant to the exercise of stock options;
- 1,716,500 common shares were issued for proceeds of \$12,187,150, pursuant to the exercise of share purchase warrants; and
- 5,930,000 common shares were issue for net proceeds of \$72,086,476 pursuant to the closing of a private placement financing.

On January 7, 2011, the Company closed a 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.

The Company spent \$36,913,170 on mineral-property exploration and acquisition costs, net of working capital changes, \$1,010,018 on building and equipment purchases, used \$2,098,183 held as restricted cash and \$5,520,321 on operating activities, during the twelve month period ended September 30, 2011.

Other receivables of \$1,136,310, as at September 30, 2011, were \$467,556 above the September 30, 2010 other receivables balance of \$668,754, with the increase reflecting the timing of harmonized sales tax remittances and receipts, associated with increased exploration activity and volumes of drilling and related invoices processed during the current quarter. The September 30, 2011 receivables were comprised entirely of harmonized sales tax receivables, while at September 30, 2010, receivables were comprised of harmonized sales tax receivables of \$655,784 and other receivables of \$12,970.

Accounts payable and accrued liabilities of \$5,020,598 as at September 30, 2011 were \$3,098,393 above the September 30, 2010 payables balance of \$1,922,205. The increase principally reflects increased exploration costs due to an overall increase in drilling and related activities, resulting from the Company's decision to expand the number of drill rigs at the Rainy River Gold Project from six to ten rigs operating as at September 30, 2011. Higher accounts payable and accrued liabilities also include the impact of accrued compensation costs (\$787,500), which were not included in opening accrued liabilities as at September 30, 2010.

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. The pause in permitting activities for the advanced exploration project, subject to the completion of the PEA on the Rainy River Gold Project expected in the fourth calendar quarter of 2011 (as mentioned in the "PROPERTY HIGHLIGHTS" section above), does not change the Company's requirement to maintain this letter of credit in favour of the government of Ontario.

During the three months ended September 30, 2011, the Company had a net cash outflow of \$12.6 million, including cash from financing activities of \$140,225, which was more than offset by a use of \$9.2 million on investing activities and \$2.8 million on operating activities. Financing activities generated a source of cash on the exercise of warrants in the period, while investing activities reflect the use of cash to fund expenditures on mineral properties, and buildings and equipment, including the cost of leasehold improvements relating to the expansion of the Toronto office.

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 Property option agreement and to cover administrative costs over the remainder of 2011 and the next fiscal year. The Company expects its average spending for engineering and exploration activities to range between \$4,000,000 and \$5,000,000 per month for the remainder of calendar 2011, while G&A costs are expected to range between \$750,000 and \$1,000,000 per month for the remainder of calendar year 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 stock 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 financial statements and MD&A. As at September 30, 2011, there were no significant changes to the Company's commitments as previously reported.

On October 5, 2011, the Company agreed to issue 50,000 common shares as a signing bonus to the Company's new Chief Operating Officer on the first anniversary of the commencement of his employment, provided that the Chief Operating Officer continues to be employed by the Company at that time. The Chief Operating Officer commenced employment with the Company on November 1, 2011.

## **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 September 30, 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 (\$2,833,500 paid) and the issuance of a total of 1,677,000 common shares (1,461,000 issued) over the period to June 2014.

As at September 30, 2011, the Company has an option agreement with respect to the TPK Property, requiring it to purchase one future private placement for \$500,000 in Northern Superior shares, and to incur exploration costs of approximately \$9.4 million, over a period to April 30, 2013 (\$5,162,324 incurred).

## **TRANSACTIONS WITH RELATED PARTIES**

During the twelve-month period ended September 30, 2011, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$nil (2010 - \$90,000) 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 \$365,505 (2010 - \$163,684) and other consulting and termination fees of \$130,000 (2010 - \$120,000 in consulting fees) 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 \$331,345 (2010 - \$120,000 in consulting fees), including an accrued performance bonus of \$56,250 (2010 - \$nil), to a company controlled by Gerald J. Shields, the Company's Vice President, General Counsel and Corporate Secretary, who is also a director; and
- (d) paid or accrued directors' fees totaling \$217,278 (2010 - \$78,500) to Dale Peniuk (\$57,429), Stuart Averill (\$30,772), Leo Berezan (\$45,341), Richard Pettit (\$47,441) and Jim Excell (\$36,295), who are all directors of the Company.

As at September 30, 2011, accounts payable and accrued liabilities included \$nil 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 twelve-month period ended September 30, 2011, the Company paid or accrued expenses for promotion and investor relations services totaling \$95,781 (2010 - \$191,321).

## **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 Company's 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. With the recent change in the Company’s fiscal year end to December 31, 2011, the Company’s first IFRS-compliant financial statements are expected to be released for the quarter ending March 31, 2012. 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 Company’s balance sheets as at October 1, 2010 and December 31, 2011, and the interim and annual statements of loss and deficit, comprehensive loss, accumulated other comprehensive income, and cash flows, for the fifteen-month fiscal year ending December 31, 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 and 2 are substantially 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. The IFRS project team has also identified the accounting impacts and, where accounting changes will be required, the team has drafted position papers on each technical issue. The IFRS project team has reviewed the position papers with the Audit Committee and is in the process of having the position papers, IFRS-compliant accounting policies, and opening balance sheet adjustments approved.

Phase 3 (implementation) is in progress and is expected to be completed by the end of calendar 2011. The IFRS project team and the Audit Committee have discussed and reviewed the format and content of IFRS-compliant interim condensed financial statements for the interim period ending March 31, 2012 and the year ending December 31, 2012. The IFRS project team has generated a draft IFRS opening balance sheet as at October 1, 2010, and comparative IFRS financial statements for the interim periods ended December 31, 2010, March 31, 2011 and June 30, 2011. The Company’s auditors have commenced their review of the comparative IFRS financial statements and related IFRS adjustments.

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.

## Description of proposed opening balance sheet adjustments at transition date

The IFRS project team continues to make progress determining the impacts of the transition to IFRS based on the Company's selected accounting policies. In connection with the IFRS conversion project, certain elections are being considered which are permitted by IFRS and, if adopted, may have a material impact on the Company's financial statements. Listed below are descriptions of the more significant impacts expected on the opening balance sheet under IFRS, as at the Company's transition date of October 1, 2010:

- The Company is considering adopting revised capitalization criteria relating to mineral properties assets, whereby exploration and evaluation expenditures would be expensed until an economic assessment of the property has been completed, and the Company has the legal right to exploit the property. Should the Company make this election, the Company expects that a material amount of exploration and evaluation expenditures would be written off as a transition adjustment, and be included in opening deficit for IFRS purposes, as at October 1, 2010. Tangible mineral property assets, representing land and mineral rights acquired, would remain on the balance sheet for IFRS purposes, largely because the measurement and recognition concepts applied to tangible assets under IFRS are generally similar to those reflected in CGAAP; and
- The premium received on flow-through shares issued would be reclassified from share capital to a liability as at October 1, 2010 as a result of differences between CGAAP and IFRS. The transition-date liability recorded would be reduced as the associated flow-through expenditures are incurred.

## 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 September 30, 2011 and September 30, 2010, cash and cash equivalents consist of:

	<b>September 30, 2011</b>	<b>September 30, 2010</b>
Cash	\$ 1,864,313	\$ 5,623,194
Guaranteed investment certificates	<u>46,887,609</u>	<u>66,246,816</u>
	<u>\$ 48,751,922</u>	<u>\$ 71,870,010</u>

Management believes that 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, 2011, are denominated in foreign currencies.

## Interest Rate Risk

At September 30, 2011, the Company has cash and cash equivalents of \$48,751,922, short term investments of \$63,784,749, 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 million on interest income in one year.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at November 8, 2011, the Company had the following common shares, warrants and stock options outstanding:

Common Shares	83,867,417
Bonus shares committed	50,000
Warrants	3,815,500
Stock Options	6,718,474
Total shares outstanding (fully diluted)	<b>94,451,391</b>

Not included in the diluted shares outstanding amount are the 216,000 common shares which the Company may be required to issue as option payments under 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.*