

**RAINY RIVER RESOURCES LTD.
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED
DECEMBER 31, 2010**

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated February 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") for the three months ended December 31, 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. 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 Project. 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 ACTIVITIES

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.

On December 14, 2010, the Company announced the appointment of Gerald Shields to the position of Vice President and General Counsel. Mr. Shields was previously the Company's Vice President, Administration. Mr. Shields is also a director of the Company.

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 of the Company 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. This transaction was approved by the TSX-V and 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.

As of December 31, 2010, the Company had cash and cash equivalents of approximately \$65.3 million.

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, 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. 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.

Two resource estimates were completed between the years 2005 – 2009, and the most recent NI 43-101-compliant resource estimate was completed in February 2010, by SRK Consulting (Canada) Inc. (“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 National Instrument 43-101 (“NI 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.

Progress during the quarter ended December 31, 2010

During the quarter ended December 31, 2010, the Company completed its 2010 infill diamond-drilling program, completing sixty-seven holes for a total of 36,970 metres drilled in the three months reported. The program was designed to expand the current resource base and to provide better continuity for the next NI 43-101-compliant resource estimate, due to be completed in the first quarter of calendar 2011. SRK has been provided with a complete internally-audited database for this resource estimate. It is anticipated that further infill drilling will be performed throughout 2011, to continually upgrade and better define resources.

During the quarter, the Company advanced the engineering design for the advanced (underground) exploration program, with metallurgical testing and environmental and geotechnical services continuing. Metallurgical testing was performed at SGS Lakefield’s laboratory in Lakefield, Ontario, and is designed to evaluate and optimize a processing flow sheet that would be used on a commercial scale at the Rainy River Project. Baseline-environmental and geotechnical-consulting services were provided by Klohn Crippen Berger (“Klohn Crippen”). Based on Klohn Crippen’s work, in December 2010 the Company submitted permit applications and closure-plan provisions to the Provincial agencies. Also in the quarter, the Company conducted a bidding process for the advanced exploration program and selected contractors, with contract finalization and signing expected upon receipt of all permits.

As at December 31, 2010, the Company had completed a total of 891 diamond drill holes, for a total of 388,652 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 on the Rainy River Project for the quarter ended December 31, 2010 totaled \$6.9 million, including \$3.7 million on diamond drilling, \$1.7 million on assaying and field expenses, \$0.4 million on studies, and \$0.4 million on geologists, consultants and other exploration costs. Substantially all of the drilling 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 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 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.

During the quarter ended December 31, 2010, the Company incurred exploration expenses totaling \$1,511,857 on the TPK Property, which fulfilled 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.

As at December 31, 2010, in addition to having completed its year-one exploration obligation of \$1.4 million, the Company had made a cash payment of \$300,000 to Northern Superior, and had subscribed for and purchased the first of three \$500,000 private placements in Northern Superior shares. In addition, on January 4, 2011, the Company made a \$1.3 million payment to Northern Superior, as required under the option 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 and February 4, 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.

The Company is the operator of the TPK Project, and the current exploration program is being supervised by Kerry Sparkes, P.Geol., Vice-President Exploration of the Company, a “qualified person” as defined by National Instrument 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 Project, no further work was conducted on the Mud Creek Property until June 2010, when the recommended airborne survey was performed. As at December 31, 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” above has been reviewed and approved by Kerry Sparkes, P.Geol., 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.Geol, 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

Current Quarter

For the three month period ended December 31, 2010, the Company recorded a net loss of \$3,099,452 (\$0.04 per share) compared to a net loss of \$944,614 (\$0.02 per share) for the comparative period of 2009. The increase in loss is due to increases in stock-based compensation of \$1,289,847, salaries and benefits of \$934,006, travel expenses of \$172,219, consulting fees of \$150,929, office and miscellaneous costs of \$91,698, rent of \$39,119 and audit and legal costs of \$43,254, partly offset by higher recorded recoveries of future income taxes of \$382,250, higher interest income of \$117,300 and lower unrealized losses on marketable securities of \$73,615.

Expenses other than stock-based compensation increased in the three-month period ended December 31, 2010 compared to the corresponding period in 2009, primarily due the factors mentioned above. Salaries and benefits increased by \$934,006 mainly due to the accrual of bonuses payable to management and employees related to calendar year 2010, and continued staffing of the Toronto office. Higher travel expenses of \$172,219 and office and miscellaneous costs of \$91,698 mainly are due to increased levels of overall activity, while higher consulting fees of \$150,929 are due to a termination payment to an officer, and directors' fees accrued during the quarter.

For the three-month period ended December 31 2010, stock-based compensation increased by \$1,289,847 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	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Interest and miscellaneous income	188,494	\$88,076	\$115,015	\$68,987	\$71,194	\$157,748	\$123,304	\$104,004
Realized and unrealized gain (loss) on marketable securities	\$Nil	\$Nil	\$Nil	\$Nil	(\$73,615)	(\$39,600)	\$100,513	(\$16,745)
Stock-based compensation expense	\$1,886,454	\$1,245,423	\$2,271,431	\$1,480,016	\$596,607	\$420,907	\$482,669	\$1,475,246
Expenses, net of stock-based compensation	\$2,061,742	\$1,186,963	\$977,194	\$868,618	\$623,586	\$596,716	\$392,403	\$387,412

Quarter	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Future income tax recovery	\$660,250	\$663,750	\$201,000	\$1,055,000	\$278,000	\$47,000	\$113,000	\$74,000
Loss from continuing operations and net loss	(\$3,099,452)	(\$1,680,560)	(\$2,932,610)	(\$1,224,647)	(\$944,614)	(\$852,475)	(\$538,255)	(\$1,701,399)
Basic and diluted loss per share	(\$0.04)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.03)

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 \$2,061,742 for the quarter ended December 31, 2010 were higher than the preceding quarter by approximately \$875,000, net of \$245,000 in salaries and benefits that were capitalized as mineral properties in the quarter. This increase in G&A costs mainly reflects the impact of new hires in the Toronto office during the quarter, including the Vice President, Exploration, and accrued year-end bonuses (\$770,000 net impact), combined with higher travel costs and higher office and miscellaneous costs (\$180,000 total impact), reflecting the ramp-up of Toronto-office activities and associated coordination. Higher first-quarter G&A costs were partially offset by lower audit and legal and lower investor-relations costs versus the preceding quarter (\$90,000 total impact). The increasing trend seen in G&A costs over the last 8 quarters reflects a sustained ramp-up in corporate activities, supporting continued exploration programs and the advancement of the Rainy River Project from an early-stage exploration target to a 5-million ounce resource on which management expects to complete a scoping study.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital position of \$63,859,738 at December 31, 2010, compared to \$70,699,895 at September 30, 2010. The working capital position at December 31, 2010 includes cash and cash equivalents of \$65,252,483. The Company invests surplus cash only in conservative positions, with major financial institutions.

During the three-month period ended December 31, 2010, the Company issued a total of 1,008,217 common shares for net cash proceeds of \$5,606,488, reflecting the following transactions:

- 318,667 common shares were issued for proceeds of \$710,683, pursuant to the exercise of stock options;
- 689,550 common shares were issued for proceeds of \$4,895,805, pursuant to the exercise of warrants.

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 \$7,863,631 on mineral-property exploration and acquisition costs, net of working capital changes, \$150,955 on equipment purchases, and used \$2,138,246 on operating activities during the three-month period ended December 31, 2010.

Receivables of \$1,640,298 as at December 31, 2010 were \$971,544 above the September 30, 2010 receivables balance of \$668,754, with the increase mainly reflecting the timing of harmonized sales tax remittances associated with large drilling and related invoices processed in December. The December 31,

2010 receivables were comprised of harmonized sales tax receivable of \$1,627,328 and other receivables of \$12,970. 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 \$3,216,177 as at December 31, 2010 were \$1,293,972 above the September 30, 2010 payables balance of \$1,922,205. The increase was the result of accrual of bonuses payable to management and staff and increased exploration costs due to an overall increase in drilling and related activities as a result of the work commitment on the TPK Property.

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 Property. The permit application process required that the letter of credit be posted before filing the project documentation with the Ministry of Northern Development, Mines and Forestry. The letter of credit is secured by an equal amount of cash held with the Company's bank. This cash is classified as non-current restricted cash in the Company's interim consolidated financial statements

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 \$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 December 31, 2010 there were no significant changes to the Company's commitments

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 his appointment, on May 18, 2011.

As at December 31, 2010, the Company has a commitment to incur \$10,676,000 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 December 31, 2010 the Company has option agreements with relation to patented mineral rights in various townships in the Rainy River District that require cash payments totaling \$3,308,000 (\$2,258,000 paid) and the issuance of a total of 1,677,000 common shares (1,289,000 issued) over the period to June 2014. In addition, at December 31, 2010, the Company has an option agreement with respect to the TPK property, requiring it to purchase two future private placements of \$500,000 each in Northern Superior shares, and to incur future exploration costs of approximately \$7.5 million, over the period to April 30, 2013.

TRANSACTIONS WITH RELATED PARTIES

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

- (a) paid or accrued consulting fees of \$Nil (2009 - \$30,000) to a company controlled by 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 \$143,138 (2009 - \$40,195) and other consulting termination fees of \$130,000 (2009 - \$30,000) 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;
- (c) paid or accrued consulting fees of \$105,000 (2009 - \$30,000), including a performance bonus of \$75,000 (2009 - 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 \$51,393 (2009 - \$nil) to Dale Peniuk (\$15,657), Stuart Averill (\$5,175), Leo Berezan (\$14,160), Richard Pettit (\$9,392) and Jim Excell (\$7,009), who are independent directors of the Company.

As at December 31, 2010, accounts payable and accrued liabilities included \$114,425 due to related parties (September 30, 2010 - \$67,321).

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

INVESTOR RELATIONS

During the three month period ended December 31, 2010, the Company paid or accrued for promotion and investor relations services totaling \$31,960 (2009 - \$51,743).

SUBSEQUENT EVENTS

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

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

On January 13, 2011, the Company filed notice of a change in auditor from Davidson & Company LLP to PricewaterhouseCoopers LLP ("PwC"). The appointment of PwC as the new auditor was primarily driven by the change of the Company's corporate head office from Vancouver to Toronto, where the former auditor does not have a presence.

CHANGES IN ACCOUNTING POLICIES

New accounting pronouncements – to be applied

International Financial Reporting Standards ("IFRS")

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 the end of 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 it acknowledges that (1) due to the short time that has elapsed since the filing of the Company's year-end MD&A, and (2) the focus on completing the year-end and quarter-end processes, management has not progressed substantially on the IFRS project during the quarter.

Management is committed to following a structured approach to the changes required by IFRS conversion. 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 implications 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 are 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, that

is, for its 2012 fiscal year. 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. Restricted cash is invested in a guaranteed investment certificate with a major financial institution, and its carrying value approximates its fair value.

At December 31, 2010 and September 30, 2010, cash and cash equivalents consists of:

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

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 December 31, 2010 are denominated in foreign currencies.

Interest Rate Risk

At December 31, 2010, the Company has cash and cash equivalents of \$65,252,483 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. Including the additional cash received in January 2011 from the equity financing, disclosed in Subsequent Events above, a 1% change in interest rates would have an effect of approximately \$950,000 on interest income for the fiscal year.

DISCLOSURE OF OUTSTANDING SHARE DATA

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

Common Shares	82,347,566
Bonus Shares committed	50,000
Warrants	4,754,450
Stock Options ⁽¹⁾	7,059,040
Diluted shares outstanding	94,211,056

- (1) Total stock options outstanding as at February 8, 2011 include 1,660,000 options granted to directors, officers and consultants on January 10, 2011, with an exercise price of \$12.65 on terms consistent with the Company's stock-option plan.

Not included in the diluted shares outstanding amount are the 388,000 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 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.