

RAINY RIVER RESOURCES LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Stated in Canadian Dollars)
FOR THE SIX MONTHS ENDED
MARCH 31, 2009

(Unaudited)

RAINY RIVER RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS

	March 31 2009	September 30 2008
CURRENT		
Cash	\$14,089,708	\$21,687,369
Short-term investments (Note 3)	10,029,022	10,236,996
Marketable securities (Note 4)	101,004	297,180
Receivables	170,924	160,636
Prepaid expenses	57,449	82,342
	24,448,107	32,464,523
NON-CURRENT		
Equipment (Note 5)	192,454	188,886
Mineral properties (Note 6)	39,559,800	33,056,999
	\$64,200,361	\$65,710,408

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$1,159,516	\$1,307,831
NON-CURRENT		
Future income taxes	1,205,000	1,266,000
	2,364,516	2,573,831

SHAREHOLDERS' EQUITY

Share capital (Note 7)	68,217,065	68,877,418
Contributed surplus (Note 7)	6,271,109	4,747,364
Deficit	(12,652,329)	(10,488,205)
	61,835,845	63,136,577
	\$64,200,361	\$65,710,408

Basis of presentation (Note 1)
Subsequent events (Note 13)

APPROVED BY THE DIRECTORS:

"Dale C. Peniuk"

Dale C. Peniuk, Director

"Nelson Baker"

Nelson Baker, Director

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

RAINY RIVER RESOURCES LTD.

INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

(Unaudited)

	For the three months ended		For the six months ended	
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2009	Mar. 31, 2008
EXPENSES				
Amortization	\$ 15,724	\$ 18,717	\$ 29,448	\$ 29,031
Audit and legal	38,437	20,838	59,148	34,399
Consulting	95,500	45,000	149,500	108,146
Office and miscellaneous	50,862	51,939	79,971	121,646
Promotion and investor relations	34,378	100,842	68,760	122,557
Regulatory and filing fees	13,026	20,668	26,196	61,859
Rent	15,436	15,050	31,560	25,535
Salaries and benefits	81,588	52,344	152,571	122,493
Stock-based compensation (Note 7c)	1,475,246	-	1,722,546	524,566
Travel	42,461	34,569	51,018	75,499
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	<u>(1,862,658)</u>	<u>(359,967)</u>	<u>(2,370,718)</u>	<u>(1,225,731)</u>
OTHER ITEMS				
Interest income	104,004	394,237	341,770	819,750
Unrealized gain (loss) on marketable securities	(16,745)	38,670	(196,176)	(12,270)
	<u>87,259</u>	<u>432,907</u>	<u>145,594</u>	<u>807,480</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(1,775,399)</u>	<u>72,940</u>	<u>(2,225,124)</u>	<u>(418,251)</u>
Future income tax recovery	74,000	325,000	61,000	325,000
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>(1,701,399)</u>	<u>397,940</u>	<u>(2,164,124)</u>	<u>(93,251)</u>
DEFICIT, BEGINNING OF THE PERIOD	<u>(10,950,930)</u>	<u>(9,942,890)</u>	<u>(10,488,205)</u>	<u>(9,451,699)</u>
DEFICIT, END OF THE PERIOD	<u>(\$12,652,329)</u>	<u>(\$9,544,950)</u>	<u>(\$12,652,329)</u>	<u>(\$9,544,950)</u>
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ (0.03)	\$ 0.01	\$ (0.04)	\$ (0.00)
Weighted average number of common shares outstanding	56,768,158	55,917,356	57,334,482	55,376,931

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

RAINY RIVER RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended		For the six months ended	
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2009	Mar. 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	\$ (1,701,399)	\$ 397,940	\$ (2,164,124)	\$ (93,251)
Items not involving cash:				
Amortization	15,724	18,717	29,448	29,031
Unrealized loss (gain) on marketable securities	16,745	(38,670)	196,176	12,270
Interest accrual on short-term investments	302,362	(49,644)	207,974	(49,644)
Stock-based compensation	1,475,246	-	1,722,546	524,566
Future income tax recovery	(74,000)	(325,000)	(61,000)	(325,000)
Changes in non-cash working capital items:				
Accounts payable and accrued liabilities	(33,047)	15,509	(20,329)	27,494
Receivables	(24,565)	102,219	(10,288)	45,810
Prepaid expenses	22,852	(17,579)	24,893	(6,098)
Net cash flows provided by (used in) operating activities	<u>(82)</u>	<u>103,492</u>	<u>(74,704)</u>	<u>165,178</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issue of share capital	-	1,693,725	-	1,978,177
Shares purchased under issuer bid	-	-	(1,122,529)	-
Cash flows provided by (used in) financing activities	<u>-</u>	<u>1,693,725</u>	<u>(1,122,529)</u>	<u>1,978,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral properties, net of changes in accounts payable and accrued liabilities	(2,235,684)	(3,073,666)	(6,367,412)	(5,466,230)
Equipment	(13,493)	(64,842)	(33,016)	(83,925)
Short-term investments	-	(10,000,000)	-	(10,000,000)
Loan receivable from related party	-	-	-	125,000
Cash flows used in investing activities	<u>(2,249,177)</u>	<u>(13,138,508)</u>	<u>(6,400,428)</u>	<u>(15,425,155)</u>
DECREASE IN CASH DURING THE PERIOD	<u>(2,249,259)</u>	<u>(11,341,291)</u>	<u>(7,597,661)</u>	<u>(13,281,800)</u>
Cash - beginning of period	<u>16,338,967</u>	<u>37,379,543</u>	<u>21,687,369</u>	<u>39,320,052</u>
CASH - END OF PERIOD	<u>\$ 14,089,708</u>	<u>\$ 26,038,252</u>	<u>\$ 14,089,708</u>	<u>\$ 26,038,252</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2009
(Unaudited)

1. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included herein are presented on a comparative and consistent basis showing the figures for the corresponding periods in the preceding year. The preparation of these interim consolidated financial statements is based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of management, the Company's interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the financial position and the results of operations and cash flows for the interim periods presented.

2. NEW ACCOUNTING POLICIES

New Accounting Pronouncements Adopted

Assessing Going Concern

Effective October 1, 2008, the Company adopted amended CICA Handbook Section 1400 "General Standards on Financial Statement Presentation", which includes the requirement for management to assess and disclose an entity's ability to continue as a going concern. Although the Company is not generating revenues, has incurred operating losses in the past and continues to incur operating losses, the Company believes it has sufficient resources to continue operations throughout the upcoming year.

Goodwill and Intangible Assets

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including those developed internally. At the same time, the AcSB amended Section 1000, Financial Statement Concepts, to clarify the criteria for recognition of an asset. Therefore items that no longer meet the definition of an asset are no longer recognized with assets. The new standard and amended standard are both effective for annual and interim periods beginning on or after October 1, 2008. The adoption of Section 3064 had no impact on the Company's consolidated balance sheets, consolidated statements of income (loss) and comprehensive income (loss) and consolidated statements of cash flows.

New Accounting Pronouncements to be Applied

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is 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 will require the restatement for comparative purposes of amounts reported for the year ended September 30, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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2. NEW ACCOUNTING POLICIES (Cont'd)

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests", which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of these Sections is permitted, although all three Sections must be adopted concurrently.

3. SHORT-TERM INVESTMENTS

At March 31, 2009, short-term investments consist of \$10,000,000 in guaranteed investment certificates plus accrued interest of \$29,022 with an average interest yield of 2.26%, purchased on February 12, 2009 and maturing on February 12, 2010.

4. MARKETABLE SECURITIES

As at March 31, 2009 and September 30, 2008, marketable securities are stated at quoted market value and consist of shares in publicly traded companies with an original cost of \$83,705.

5. EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
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March 31, 2009			
Computer equipment	167,053	84,142	82,911
Office furniture and equipment	57,085	30,660	26,425
Field equipment	161,663	78,545	83,118
	385,801	193,347	192,454
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September 30, 2008			
Computer equipment	161,026	72,297	88,729
Office furniture and equipment	56,596	27,726	28,870
Field equipment	135,164	63,877	71,287
	352,786	163,900	188,886
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RAINY RIVER RESOURCES LTD.
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(Unaudited)

6. MINERAL PROPERTIES

Title to mineral properties involves inherent risks due to difficulties of determining the validity of certain mineral claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

a) Rainy River Property, Ontario

In June 2005, the Company completed the acquisition of a 100-percent interest in the Rainy River property, located in the southwest corner of northern Ontario. To acquire its interest, the Company paid \$1,750,000 and issued a total of 9,324,912 common shares, 6,400,000 share purchase warrants exercisable at \$0.50 per share for one year and a total of 1,500,000 stock options exercisable at between \$0.25 and \$0.28 per share for a five year period.

The Company was obligated to pay a bonus of \$2,500,000 on commencement of commercial production from the property and a quarterly royalty of \$1 per ton of ore produced from the property, subject to an annual consumer price index adjustment. In December 2008, the Company completed an agreement with Nuinsco Resources Limited ("Nuinsco") pursuant to which the Company purchased Nuinsco's right to the production tonnage royalty and the bonus payment due on the property. Under the terms of the agreement, the Company purchased Nuinsco's rights to the royalty and the bonus payment by making a cash payment of \$500,000 and issuing a total of 200,000 common shares valued at \$130,000.

The property has a 3% net smelter returns royalty ("NSR") on production, 1% of which can be purchased for \$125,000. A portion of the property is also subject to a 10% net profits interest.

The Company has entered into several additional property option agreements in the Rainy River District of northwestern Ontario which, together with the aforementioned property, make up the entire Rainy River Property.

During the period from June 2005 to September 2007, the Company entered into various agreements whereby the Company has an option to earn a 100% interest, subject to a 2% NSR (3% on one property), in certain patented mineral rights in various townships in the Rainy River District, by making cash payments totalling \$2,085,000 (\$837,000 paid) and issuing a total of 1,049,500 common shares (537,000 issued at a total value of \$1,828,860) over the period to September 2011. Upon expiry of the option period on one of the properties, on the fifth anniversary date of the agreement (June 2010), the Company is required to make annual advance royalty payments of \$30,000 for a three year period, totalling \$90,000.

A summary of the details of the option agreements entered into subsequent to September 30, 2007 is as follows:

- (i) **N. & M. Gerula, N. & M. Gerula 2, B. Gerula, and Teeple 3 Properties**
By four separate agreements dated October 2007, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Sifton and Richardson Townships, by making cash payments of \$610,000 (\$190,000 paid) and issuing 305,000 common shares (125,000 issued at a value of \$336,500) over a four year period.
- (ii) **Fauconnier Property**
By an agreement dated November 2007, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Potts Township, by making cash payments of \$100,000 (\$30,000 paid) and issuing 50,000 common shares (20,000 issued at a value of \$52,400) over a four year period.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2009
(Unaudited)

6. MINERAL PROPERTIES (Cont'd)

(iii) Bayfield Ventures Corp. Property

By an agreement dated November 2007, the Company had an option to earn a 60% interest in certain properties in Richardson Township from Bayfield Ventures Corp. ("Bayfield"), by making cash payments totalling \$200,000 (\$50,000 paid), issuing 60,000 common shares (15,000 issued at a value of \$63,750) and incurring exploration expenditures on the optioned claims totalling \$3,000,000 over a three year period (\$1,000,000, \$1,000,000 and \$1,000,000 respectively). The Company terminated the Bayfield option agreement during the period ended December 31, 2008.

(iv) Western Warrior Resources Inc. Property

By an agreement dated December 2007, the Company had an option to earn a 60% interest in certain claim units in Potts, Rainy Lake – Northwest Bay, Senn, Jackfish Lake, Fleming and Menary Townships from Western Warrior Resources Inc. ("Western") by making cash payments totalling \$225,000 (\$75,000 paid), issuing 60,000 common shares (20,000 issued at a value of \$80,000) and incurring exploration expenditures on the optioned claims totalling \$3,000,000 over a three year period (\$500,000, \$1,200,000 and \$1,300,000 respectively). The Company terminated the Western option agreement during the period ended December 31, 2008.

(v) Burkeland / Hann Property

By two agreements dated March 2008, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Potts Township, by making cash payments of \$200,000 (\$60,000 paid) and issuing 100,000 common shares (40,000 issued at a value of \$119,600) over a four year period.

(vi) Katrin / Strand Property

By an agreement dated May 2008, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Sifton Township, by making cash payments of \$50,000 (\$25,000 paid) and issuing 25,000 common shares (12,500 issued at a value of \$45,625) over a one year period.

(vii) Schoenmann / Quandt Property

By an agreement dated June 2008, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Potts Township, by making cash payments of \$200,000 (\$30,000 paid) and issuing 100,000 common shares (20,000 issued at a value of \$62,900) over a four year period.

(viii) Huitikka and Petkau Properties

By two separate agreements dated March 2009, the Company has an option to earn a 100% interest, subject to a 2% NSR, in certain patented mineral rights in Potts and Chapple Townships, by making cash payments of \$100,000 (\$10,000 paid) and issuing 50,000 common shares (10,000 issued at a value of \$21,650) over a four year period.

During the year ended September 30, 2008, the Company completed the purchase of additional property in the Rainy River District for \$204,380 and the surface and mineral rights to a land parcel in the Rainy River District for \$524,553.

In October 2008, the Company completed a purchase of the surface and mineral rights to two land parcels in Richardson Township for \$75,882.

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

6. MINERAL PROPERTIES (Cont'd)

The details of the costs incurred on the Company's Rainy River Property are as follows:

	Six months ended March 31 2009	Year ended September 30 2008
Acquisition costs		
Opening balance	\$ 8,088,183	\$ 5,122,572
Additions		
Shares issued	263,375	1,388,550
Property option payments	230,000	770,000
Royalty and bonus purchase	500,000	-
Legal costs	5,973	44,246
Staking costs	21,230	3,580
Land rights purchase	75,882	759,235
	<u>1,096,460</u>	<u>2,965,611</u>
Total acquisition costs	9,184,643	8,088,183
Exploration costs		
Opening balance	24,860,578	13,662,437
Additions		
Compilation and analysis	675,442	776,387
Drilling	3,329,410	7,601,313
Equipment rental	44,327	138,542
Field technicians and expenses	327,095	803,688
Geological and airborne surveys	-	727,884
Geologists and consultants	638,749	860,412
Metallurgical testing	-	91,137
Preliminary geo-technical studies	234,729	-
Socio-environmental baseline studies	74,108	-
Travel and subsistence	71,915	198,778
	<u>5,395,775</u>	<u>11,198,141</u>
Total exploration costs	30,256,353	24,860,578
Total costs – Rainy River Property	\$ 36,440,996	\$ 32,948,761

b) Mud Creek Property

During the year ended in September 30, 2006, the Company acquired a 100% interest in certain mineral leases in St. Louis County in northern Minnesota, U.S.A. referred to as the Mud Creek Property. Based on mineral tenure provisions in Minnesota, subject to performance and payment of rental, these mineral leases expire in September 2055.

The details of the costs incurred on the Company's Mud Creek Property are as follows:

	Six months ended March 31 2009	Year ended September 30 2008
Acquisition costs		
Opening balance	\$ 17,685	\$ 17,685
Additions	-	-
Total acquisition costs	17,685	17,685
Exploration costs		
Opening balance	90,553	90,553
Additions		
Lease maintenance costs	10,566	-
	<u>10,566</u>	<u>-</u>
Total exploration costs	101,119	90,553
Total costs – Mud Creek Property	\$ 118,804	\$ 108,238
Total all properties	\$ 39,559,800	\$ 33,056,999

RAINY RIVER RESOURCES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended March 31, 2009
(Unaudited)

7. SHARE CAPITAL

(a) Share capital and contributed surplus

Authorized

Unlimited Common shares without par value

	Number of shares	Capital Stock \$	Contributed Surplus \$
Issued			
As at September 30, 2007	54,740,238	61,772,099	6,496,451
Stock-based compensation	-	-	1,278,598
Stock options exercised	2,597,200	5,415,025	-
Warrants exercised	17,252	41,405	-
Stock-based compensation on exercise of warrants and options	-	3,027,685	(3,027,685)
Property option agreements	392,500	1,388,550	-
Tax benefits renounced to flow-through share subscribers	-	(1,621,000)	-
Balance before treasury shares re-purchased	57,747,190	70,023,764	4,747,364
Treasury shares re-purchased in fiscal 2008 and subsequently cancelled Jan. 23, 2009	(627,800)	(1,146,346)	-
As at September 30, 2008	57,119,390	68,877,418	4,747,364
Stock-based compensation	-	-	247,300
Property option agreements	110,000	107,200	-
<u>Royalty and bonus purchase (Note 6(a))</u>	<u>200,000</u>	<u>130,000</u>	<u>-</u>
Balance before treasury shares re-purchased	57,429,390	69,114,618	4,994,664
Treasury shares re-purchased in fiscal 2009 and subsequently cancelled Jan. 23, 2009	(1,080,000)	(1,122,529)	-
Balance before treasury shares cancelled	56,349,390	67,992,089	4,994,664
Premium paid on treasury shares re-purchased and cancelled on January 23, 2009	-	198,801	(198,801)
Balance after treasury shares cancelled	56,349,390	68,190,890	4,795,863
Stock-based compensation	-	-	1,475,246
Property option agreements	12,500	26,175	-
As at March 31, 2009	56,361,890	68,217,065	6,271,109

Normal course issuer bid

In August 2008, the Company filed with the TSX Venture Exchange (the "TSX-V") a notice of intention to make a normal course issuer bid (the "Bid") for certain of its common shares. Pursuant to the Bid, the Company intends to purchase through the facilities of the TSX-V up to 2,000,000 of its outstanding common shares. It is the Company's intention that all shares purchased under the Bid will be cancelled. The Bid commenced on August 29, 2008 and will continue for a one year period. To December 31, 2008 and January 23, 2009, the total shares re-purchased under the Bid were 1,707,800 at a total cost of \$2,268,875. On January 23, 2009, the Company returned the 1,707,800 shares re-purchased to its transfer agent for cancellation; share capital was reduced by \$2,070,000 and contributed surplus was charged with \$198,801, reflecting the amount of premium paid for the cancelled shares over the average equity value per share.

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

(b) Stock options and warrants

The Company has a rolling stock option plan, whereby from time to time, at the discretion of the Board of Directors, stock options may be granted to directors, officers, employees and consultants. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

On February 10, 2009, the Company re-priced and extended the term for 515,000 stock options previously granted to non-insider employees that had an average exercise price of \$5.04 per share, expiring between March 19, 2009 and October 31, 2009, to have an exercise price of \$2.00 per share expiring February 10, 2014 and re-priced 60,000 stock options expiring between June 6, 2013 and August 7, 2013 that had an average exercise price of \$4.44 per share to have an exercise price of \$2.00 per share.

Stock options and share purchase warrant transactions are summarized as follows:

	Warrants		Stock options	
	Number	Weighted	Number	Weighted
	of warrants	Average	of options	Average
		Exercise Price		Exercise Price
		\$		\$
Outstanding, September 30, 2007	3,334,727	5.92	4,466,200	2.33
Granted/issued	-	-	970,000	4.77
Exercised	(17,252)	2.40	(2,597,200)	2.08
Expired/cancelled	-	-	(59,000)	2.94
Outstanding, September 30, 2008	3,317,475	5.94	2,780,000	3.40
Granted/issued	-	-	2,900,000	1.60
Exercised	-	-	-	-
Expired/cancelled	(3,317,475)	5.94	(1,605,000)	3.75
Outstanding, March 31, 2009	-	-	4,075,000	1.56
Exercisable, March 31, 2009	-	-	1,654,166	1.24

The following incentive stock options and warrants were outstanding at March 31, 2009:

	Number	Exercise	Expiry Date
	of shares	Price \$	
Stock options	500,000	0.28	March 17, 2010
	100,000	4.50	June 6, 2013 (not vested)
	50,000	2.00	June 6, 2013 (2/3 not vested)
	10,000	2.00	August 7, 2013 (2/3 not vested)
	1,000,000	0.83	November 14, 2013 (2/3 not vested)
	515,000	2.00	February 10, 2014 (2/3 not vested)
	1,900,000	2.00	February 10, 2014 (2/3 not vested)
	4,075,000	1.56	

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7. SHARE CAPITAL (Cont'd)

(c) Stock-based compensation

During the period ended March 31, 2009, the Company granted 2,900,000 (2008 – 510,000) stock options with a total estimated fair value of \$3,157,052 (2008 - \$490,921) and re-priced 575,000 (2007 – nil) stock options that the Company estimated had had a fair value of \$696,732 (2007 – \$nil). The fair value per option granted was \$1.09 (2008 - \$0.96) and per re-priced option was \$1.21 (2007 – \$nil). Vesting periods ranged from date of grant to a period of three years. For the period ended March 31, 2009, the Company recorded \$1,722,546 (2008 - \$524,566) as stock-based compensation expense.

The fair value of stock options and compensatory warrants granted is estimated on the grant or issue date using the Black-Scholes option-pricing model. The weighted average assumptions used in the calculation of fair value are as follows:

	Six months ended March 31, 2009	Six months ended March 31, 2008
Risk free interest rate	2.20%	3.20%
Expected life	5 years	2 years
Expected stock volatility	91%	50%
Expected dividend yield	Nil	Nil

8. RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2009, the Company entered into transactions with related parties as follows:

- (a) paid or accrued consulting fees of \$60,000 (2008 - \$60,000) to a company controlled by the President and Chief Executive Officer, who is also a director;
- (b) paid or accrued consulting fees of \$30,000 (2008 - \$30,000) to a company controlled by the Chief Financial Officer;
- (c) paid or accrued consulting fees, included in exploration costs, of \$39,270 (2008 – \$23,430) and other consulting fees of \$20,000 (2008 - \$Nil) to a company controlled by the Vice President Exploration, who is also a director; and
- (d) paid or accrued consulting fees of \$20,000 (2008 - \$Nil) to a company controlled by the Vice President Administration, who is also a director.

On November 24, 2005, the Company entered into a loan agreement, subsequently amended, with the President under which the Company agreed to loan the President \$125,000. The loan was repaid in November 2007, along with accrued interest totalling \$7,500.

As at March 31, 2009, accounts payable and accrued liabilities includes \$30,203 due to related parties (September 30, 2008 - \$25,376).

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

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company did not pay cash for interest expense or income taxes for any of the periods presented.

For the six months ended March 31, 2009, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$1,064,660 as at March 31, 2009 (\$1,192,646 at September 30, 2008);
- b) The issuance of common shares valued at \$133,375 related to mineral property option agreements;
- c) The issuance of common shares valued at \$130,000 related to the purchase of royalty and bonus rights; and
- d) The allocation of a share repurchase premium of \$198,801 from share capital to contributed surplus on cancellation of treasury shares repurchased.

For the six months ended March 31, 2008, the Company's significant non-cash financing and investing transactions consisted of:

- a) The accrual in mineral properties of deferred exploration costs incurred of \$619,412 as at March 31, 2008 (\$463,605 at September 30, 2007);
- b) The issuance of common shares valued at \$750,900 related to mineral property option agreements;
- c) The recognition of a fair value component of \$952,364 in respect of options and warrants exercised; and
- e) The recording of a \$1,621,000 decrease to share capital, an increase to future income tax recovery of \$325,000 and an increase to future income tax liability of \$1,296,000 from the renunciation of flow-through shares.

10. SEGMENTED INFORMATION

The Company operates in one segment being the acquisition and exploration of mineral properties. All of the Company's assets are located in Canada, except for certain mineral property interests disclosed in Note 6.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and short-term investments. Management believes that the credit risk concentration with respect to cash and short-term investments is remote. Receivables are due primarily from a government agency.

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at March 31 2009, the Company had a cash balance of \$14,089,708 (September 30, 2008 - \$21,687,369) to settle current liabilities of \$1,159,516 (September 30, 2008 - \$1,307,831). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. In addition to cash on interest-bearing demand deposits with banks of \$14,089,708 (September 30, 2008 - \$21,687,369), the Company has \$10,000,000 (September 30, 2008 - \$10,000,000) in interest-bearing investment-grade short-term investments. A 1% change in interest rates would have an effect of \$241,000 on interest income for the fiscal year.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. 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, 2009 are denominated in United States Dollars.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

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12. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and short-term investments.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

13. SUBSEQUENT EVENTS

Subsequent to March 31, 2009, the Company:

- a) issued 72,500 common shares in connection with existing mineral property option agreements (Note 6(a)); and
- b) entered into an agreement with two arm's length optionors (the "Optionors") pursuant to which the Company will, subject to TSX-V acceptance, buy out their rights to the 3% NSR on lands forming part of the Company's Rainy River project (Note 6(a)). Under the buy-out agreement, the Company will purchase the entire NSR for \$475,000 cash and 600,000 common shares of the Company. However, if the average trading price of the Company's shares on the TSX-V is below \$2.00 per share (or \$1.2 million in total) during the period prior to TSX-V approval, the number of shares to be issued to the Optionors will be increased so that the total value of the share consideration received equals \$1.2 million.