

**ROCKCLIFF RESOURCES INC.**  
**UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTH PERIOD ENDED MAY 31, 2008**

These Unaudited Interim Financial Statements have been compiled by the Company's management and they have not been reviewed by the Company's auditors.

# ROCKCLIFF RESOURCES INC.

## UNAUDITED INTERIM BALANCE SHEET

MAY 31, 2008

	May 31 2008	Aug. 31 2007
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 321,282	\$ 913,297
Restricted cash and cash equivalents (Note 4)	3,301,425	270,738
Accounts receivable	231,776	91,985
Prepaid expenses and other assets	<u>163,825</u>	<u>111,570</u>
	4,018,308	1,387,590
Property, plant and equipment (Note 5)	185,839	164,657
Mineral resource properties (Note 6)	<u>6,164,229</u>	<u>1,374,661</u>
	<u>\$ 10,368,376</u>	<u>\$ 2,926,908</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued liabilities	\$ 199,037	\$ 141,257
Loan payable (Note 7)	<u>100,000</u>	<u>-</u>
	299,037	141,257
Future income taxes (Note 10)	<u>2,710,878</u>	<u>433,368</u>
	<u>3,009,915</u>	<u>574,625</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	8,320,672	2,824,793
Contributed surplus (Note 8)	408,321	394,477
Deficit	<u>(1,370,532)</u>	<u>(866,987)</u>
	<u>7,358,461</u>	<u>2,352,283</u>
	<u>\$ 10,368,376</u>	<u>\$ 2,926,908</u>

*The accompanying notes are an integral part of these unaudited interim financial statements*

Approved by the Board:

*"Ken Lapierre"*

Director

*"William R. Johnstone"*

Director

# ROCKCLIFF RESOURCES INC.

## UNAUDITED INTERIM STATEMENT OF OPERATIONS AND DEFICIT FOR THE PERIODS ENDED MAY 31

	Three months ended		Nine months ended	
	2008	2007	2008	2007
Interest income	\$ 8,347	\$ 12,345	\$ 7,856	\$ 24,226
Expenses:				
Consulting fees <i>(Note 9)</i>	39,611	26,673	140,398	54,203
Professional fees <i>(Note 9)</i>	18,428	15,876	96,035	133,076
Travel and accommodation	31,166	4,989	58,726	14,760
General and administrative	4,628	7,783	46,215	18,111
Advertising and promotion	-	11,225	12,865	12,218
Filing and regulatory fees	421	9,000	61,121	65,385
Insurance	7,563	4,320	23,325	4,320
Occupancy costs	4,875	5,428	15,012	14,968
Mineral resource property abandoned <i>(Note 6)</i>	-	-	2,500	-
Interest accretion <i>(Notes 7 and 9)</i>	-	-	9,018	-
Stock option compensation <i>(Note 8)</i>	-	338,962	4,826	338,962
Amortization	16,124	8,620	41,360	22,743
	<b>122,816</b>	432,876	<b>511,401</b>	678,746
Net loss for the period	(114,469)	(420,531)	(503,545)	(654,520)
Deficit, beginning of period	(1,256,063)	(283,099)	(866,987)	(49,110)
Deficit, end of period	<b>\$ (1,370,532)</b>	\$ (703,630)	<b>\$ (1,370,532)</b>	\$ (703,630)
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.03)	\$ (0.02)	\$ (0.05)
Weighted average number of shares	<b>23,971,426</b>	16,174,901	<b>20,755,808</b>	12,828,869

*The accompanying notes are an integral part of these unaudited interim financial statements*

**ROCKCLIFF RESOURCES INC.**  
**UNAUDITED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE PERIODS ENDED MAY 31**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash was provided by (used in) the following activities:				
<b>Operating:</b>				
Net loss for the period	\$ (114,469)	\$ (420,531)	\$ (503,545)	\$ (654,520)
Item not involving an outlay of cash:				
Stock option compensation	-	338,962	4,826	338,962
Mineral resource property abandoned	-	-	2,500	-
Interest accretion	-	-	9,018	-
Amortization	16,124	8,620	41,360	22,743
Changes in non-cash working capital items:				
Accounts receivable	(137,490)	(34,430)	(139,791)	(77,094)
Prepaid expenses and other assets	(19,717)	(6,807)	(52,255)	(44,852)
Accounts payable and accrued liabilities	<u>(1,136,118)</u>	<u>(148,009)</u>	<u>57,780</u>	<u>52,201</u>
	<u>(1,391,670)</u>	<u>(262,195)</u>	<u>(580,107)</u>	<u>(362,560)</u>
<b>Financing:</b>				
(Repayment) proceeds of loan payable	(400,000)	-	100,000	-
Issuance of common shares	<u>4,431,037</u>	<u>260,718</u>	<u>7,542,627</u>	<u>2,367,560</u>
	<u>4,031,037</u>	<u>260,718</u>	<u>7,642,627</u>	<u>2,367,560</u>
<b>Investing:</b>				
Acquisition of mining resource properties	(77,976)	-	(186,076)	(2,080)
Deferred exploration expenditures	(1,379,482)	(428,521)	(4,416,718)	(825,409)
Government exploration grants	41,488	-	41,488	-
Change in restricted cash and cash equivalents	(2,121,877)	605,722	(3,030,687)	(469,636)
Acquisition of property, plant and equipment	<u>(12,820)</u>	<u>(12,277)</u>	<u>(62,542)</u>	<u>(58,784)</u>
	<u>(3,550,667)</u>	<u>164,924</u>	<u>(7,654,535)</u>	<u>(1,355,909)</u>
(Decrease) increase in cash and cash equivalents	(911,300)	163,447	(592,015)	649,091
Cash and cash equivalents, beginning of period	<u>1,232,582</u>	<u>755,397</u>	<u>913,297</u>	<u>269,753</u>
Cash and cash equivalents, end of period	<u>\$ 321,282</u>	<u>\$ 918,844</u>	<u>\$ 321,282</u>	<u>\$ 918,844</u>

*The accompanying notes are an integral part of these unaudited interim financial statements*

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 1. Nature of operations and going concern assumption:

Rockcliff Resources Inc. (the "Company") was incorporated under the laws of the Province of Ontario on January 20, 2006 under the name Ridgeline Resources Inc. On October 17, 2006 the Company filed articles of amendment to change its name to Rockcliff Resources Inc. The Company is engaged in base and precious metal mining and related activities, including exploration and development in Ontario and Manitoba.

These interim financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern and do not reflect any adjustments in the carrying values of the assets, liabilities, revenues, expenses, and the balance sheet classifications used that would be necessary if the going concern assumption was not appropriate.

Since incorporation the Company has been exclusively involved in the acquisition, exploration and development of mineral resource properties and accordingly has had no source of operating cash flows. The Company's ability to meet its obligations and continue as a going concern is dependent on the ability to complete future financings. While the Company has been successful in raising financings to date, there can be no assurance that it will be able to do so in the future.

### 2. Summary of significant accounting policies:

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

#### Adoption of new accounting standards

Effective September 1, 2007 the Company adopted the new accounting standards for Financial Instruments, Equity, and Comprehensive Income as required in accordance with Canadian generally accepted accounting principles. These standards introduce new requirements for the recognition, measurement and disclosure of financial instruments, establish the concept of comprehensive income and the rules for reporting it, and introduce new rules for the reporting of equity and the changes therein.

There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current period is equal to its net income and there is no balance to be reported as Accumulated other comprehensive income.

#### Use of Estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of the revenue and expenses during the period. Actual results could differ from such estimates.

#### Cash equivalents:

Cash equivalents consists of short term interest bearing securities with maturities of 90 days or less at the date of purchase.

#### Long lived assets:

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate, and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 2. Summary of significant accounting policies (continued):

#### **Property, plant and equipment:**

Property, plant and equipment, is recorded at cost. Amortization is provided annually at rates and methods calculated to amortize the assets over their estimated useful lives as follows:

Office furniture and equipment	20% declining balance
Leasehold improvements	Straight line over 5 years
Exploration equipment	20% declining balance
Computer software	100% declining balance
Computer equipment	30% declining balance

In the year of acquisition one-half of the normal amortization is recorded.

#### **Mineral resource properties and deferred exploration expenditures:**

The Company carries its mineral resource properties at cost. Exploration expenditures relating to these properties, reduced by sundry income, are charged to deferred expenditures as incurred. If the property is brought into commercial production, the deferred expenditures will be amortized using the unit of production method based upon the proven and probable ore reserves of the mine. Should an entire group of mining claims in an area be disproved or abandoned, the related acquisition costs, and exploration expenditures will be written off. If the Company surrenders an interest in a property, any proceeds from the disposition of that part of the property is applied to reduce the carrying cost of the property to zero prior to any gain being recognized on the partial disposition.

The net carrying value of mineral properties does not represent the present or future realizable value of such properties. The realization of these assets is dependent upon confirmation of the Company's ownership interest in the claims and attaining viable commercial operations or proceeds from disposition.

An impairment loss will be recognized on a mineral property when the carrying value of the property is not recoverable or exceeds its fair value. Mineral properties are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The factors to be considered by management in this determination include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

#### **Asset retirement obligations:**

The Company has adopted CICA 3110, "Asset Retirement Obligations" which requires that the estimated fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The estimates used in the valuations are based primarily on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

An obligation has not been recorded with respect to asset retirement obligations (i.e. environmental remediation) for the Company's exploration and development properties. This is based on the fact that the mining and processing activities that give rise to the legal obligation have not yet occurred and/or the environmental disturbance which has occurred is not yet significant.

#### **Earnings per share:**

The Company has adopted the new recommendations of the CICA Handbook which requires the presentation of both basic and diluted EPS on the face of the income statement regardless of the materiality of the difference between them. In addition, the recommendations require the use of the treasury stock method to compute the dilutive effects of options, warrants and similar instruments as opposed to the previous method used which was the imputed earnings approach. The section also requires the disclosure of a reconciliation of the calculation of basic and diluted EPS. Due to the incurrence of net losses for each period presented the outstanding warrants are considered to be anti-dilutive and accordingly this information has not been presented.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 2. Summary of significant accounting policies (continued):

#### Income taxes:

The Company has adopted the liability method of accounting for income taxes in accordance with the recommendations of the CICA Handbook. Future income tax relates to the expected consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment or substantive enactment.

### 3 Financial instruments:

#### Fair values:

The carrying amount of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities each approximate their fair values due to the short-term maturities of these instruments. These financial instruments do not expose the Company to any interest rate risk or currency risk.

#### Other price risks and credit risk:

The Company's accounts receivable include amounts that are recoverable on account of goods and services taxes. These amounts are subject to verification through audits that may be conducted by Canada Revenue Agency. The accounts receivable do not expose the Company to any credit risk or concentration of credit risk. The Company has no history of bad debts.

#### Liquidity risk:

The Company currently has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it to enable it to meet its obligations as they become due. Although the Company has been successful in the past in financing its activities, there can be no assurance that it will be able to do so in the future.

### 4 Restrictions on the use of cash and cash equivalents:

As an element of each of the public offerings completed April 2008, December 2007 and December 2006 the Company issued common shares that were designated as being flow through shares. One of the conditions of issuing flow through shares is that the Company is required to retain the gross proceeds for the exclusive purpose of paying for exploration and development expenditures associated with its resource mineral properties.

	May 31 2008	Aug. 31 2007
Balance at beginning of period	\$ 270,738	\$ -
Gross proceeds raised upon the issuance of flow through shares	6,305,399	1,200,000
Exploration expenditures paid from these funds	<u>(3,274,712)</u>	<u>(929,262)</u>
Balance of funds retained for future payments	<u>\$ 3,301,425</u>	<u>\$ 270,738</u>

### 5. Property, plant and equipment:

May 31, 2008	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 67,313	\$ 17,528	\$ 49,785
Leasehold improvements	56,293	22,723	33,570
Exploration equipment	81,666	13,968	67,698
Computer equipment	36,947	13,813	23,134
Computer software	28,210	16,558	11,652
	<u>\$ 270,429</u>	<u>\$ 84,590</u>	<u>\$ 185,839</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 5. Property, plant and equipment (continued):

Aug. 31, 2007	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 62,683	\$ 9,151	\$ 53,532
Leasehold improvements	56,293	14,794	41,499
Exploration equipment	49,019	4,902	44,117
Computer equipment	27,934	8,405	19,529
Computer software	11,959	5,979	5,980
	<u>\$ 207,888</u>	<u>\$ 43,231</u>	<u>\$ 164,657</u>

### 6. Mineral resource properties:

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

	May 31 2008	Aug. 31 2007
Opening balance	\$ 1,374,661	\$ 258,685
Mineral resource property abandoned	(2,500)	-
Exploration expenditures	4,416,718	1,036,996
Government grants received	(41,488)	-
Acquisition of mining properties	416,838	78,980
Closing balance	<u>\$ 6,164,229</u>	<u>\$ 1,374,661</u>
Represented by:		
Staked property (Horwood), Porcupine Mining Division, Ontario (a)	\$ -	\$ 2,500
Optioned property (Shihan), Sault Saint Marie Mining Division, Ontario (b)	1,238,625	1,189,317
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (c)	3,749,902	165,219
Optioned property (Jackfish), Snow Lake Mining District, Manitoba (d)	45,505	7,100
Optioned property (Tower), Thompson Nickel Belt, Manitoba (e)	206,962	-
Staked properties, Snow Lake Mining District, Manitoba (f)	296,549	10,525
Licensed properties, Snow Lake Mining District, Manitoba (g)	626,686	-
	<u>\$ 6,164,229</u>	<u>\$ 1,374,661</u>

- (a) The Company held a 100% interest in 38 unpatented mining claims however no exploration was conducted and the claims have been allowed to lapse. The cost to acquire the claims has been written off.
- (b) The Company holds an option to acquire a 100% interest, subject to a 2% net smelter returns royalty in favour of the vendors, in 27 claims representing 388 claim units located in Challenger, Glasgow, Meath and Rennie Townships in the Sault Saint Marie Mining Division in the Province of Ontario. In order to exercise its option the Company has made cash payments of \$20,000, has issued 275,000 common shares and must make the following payments: (i) pay \$15,000 cash and issue 75,000 common share on or before July 14, 2008 and, (ii) pay \$25,000 cash on or before July 14, 2009. The Company was also required to spend a minimum of \$300,000 exploring the property which has been satisfied. The Company has also reimbursed the vendors an additional \$30,320 in staking fees for claims included under the agreement.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 6. Mineral resource properties (continued):

- (c) In March 2007 the Company entered into seven option agreements to acquire a 100% interest, subject to a 2% net smelter returns royalty, in seven individual property packages located in the Snow Lake District in Manitoba. Under the terms of the agreements the Company made a cash payment of \$70,000 in March 2008 and must make the following additional cash payments in order to exercise its options: (i) \$125,000 on or before March 22, 2009; (ii) \$390,000 on or before March 22, 2010 and, (iii) \$1,475,000 on or before March 22, 2011. In addition, the Company must spend at least \$9,800,000 exploring the properties with minimum expenditures by year as follows: (i) \$1,300,000 on or before March 22, 2009; (ii) \$2,600,000 on or before March 22, 2010 and (iii) \$4,900,000 on or before March 22, 2011. The March 2008 expenditure requirement of \$1,000,000 was achieved. In the event that the Company earns its 100% interest in these properties, the optionor can reacquire a 55% interest by making payments to Rockcliff of 200% of the cash option payments made by Rockcliff and by incurring exploration expenditures that are 200% of those incurred by Rockcliff. The optionor can reacquire an additional 10% interest by bringing the property to commercial production and financing the 35% portion retained by Rockcliff. These financing costs would be recovered, to the extent possible, from the Company's share of profits from future production.
- (d) In September 2007 the Company entered into an option agreement to acquire a 100% interest, subject to a 3% net smelter returns royalty in favour of the vendor, a 28 km<sup>2</sup> property located in the Snow Lake District in Manitoba. The Company paid \$10,000 cash and issued 20,000 common shares at the time the agreement was executed and must also make the following payments in order to exercise its option: (i) \$12,500 cash and issue 20,000 common shares on or before September 17, 2008; (ii) \$15,000 cash and issue 20,000 common share on or before September 17, 2009; (iii) \$17,500 cash and issue 20,000 common share on or before September 17, 2010; and, (iv) \$45,000 cash and issue 20,000 common shares on or before September 17, 2011. In addition, in order to exercise its option, the Company must spend \$350,000 exploring the property with minimum expenditures by year as follows: (i) \$50,000 on or before September 17, 2008; (ii) \$75,000 on or before September 17, 2009; (iii) \$100,000 on or before September 17, 2010 and (iii) \$125,000 on or before September 17, 2011. The Company also has the right to purchase two thirds or 2.0% of the net smelter returns royalty for \$2,000,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty. Prior to executing this agreement the Company had already staked certain land claims that are contiguous to the optioned property. The amounts presented represent the aggregate amounts expended on these combined properties.
- (e) In February 2008 the Company entered into an option agreement to acquire a 70% interest, subject to an existing 2% net smelter returns royalty in favour of a previous owner, a property located in the Thompson Nickel Belt District in Manitoba. At the time the agreement was executed the Company paid \$30,000 in cash and issued 1,250,000 share purchase warrants, each of which entitles the holder to acquire one common share of the Company for \$1.50 any time prior to February 20, 2010. To retain its rights under the agreement the Company must make annual cash payments of \$30,000 each until February 2012. The Company will acquire the initial 50% interest in the property provided it completes a minimum of 2,000 metres of diamond drilling, penetrating beyond the Precambrian-Paleozoic boundary, by March 21, 2009 and has incurred a minimum of \$2,000,000 in exploration expenditures by March 21, 2010. An additional 20% interest can be acquired provided the Company acquires the initial 50% interest and that it incurs an additional \$2,000,000 in exploration expenditures by March 21, 2012.
- (f) The Company holds a 100% interest in various land claims in the Snow Lake District in Manitoba as a result of holding the staking registration. These properties are free of any purchase price or exploration obligations with the exception of minimum work requirements specified by the province of Manitoba in order to renew the claims in the future.
- (g) The Company holds four mineral exploration licenses (MEL) in the Snow Lake District in Manitoba. Each MEL grants the Company an exclusive right to explore and/or stake the property under license. Each MEL lasts for the lesser of three years or until the holder stakes land within the license boundary. The MEL will expire between January 2011 and October 2011 provided no staking occurs at an earlier time.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 7. Loan payable:

	<u>May 31</u> <u>2007</u>	<u>Aug. 31</u> <u>2007</u>
Demand loan is unsecured, non-interest bearing and matures November 2008. The lender, who is a Director of the Company, can demand repayment, in whole or in part, by providing the Company with thirty (30) days written notice.	<u>\$ 100,000</u>	<u>\$ -</u>

The agreement negotiated with the lender provided the Company with the option of borrowing up to a maximum of \$1,000,000 under the terms and conditions noted above. The Company initially drew \$500,000, of which \$400,000 has been repaid, and has until June 30, 2008 to draw down any or all of the remaining \$500,000 available under this agreement.

In accordance with Canadian generally accepted accounting principles the carrying value of this financial instrument has been determined by discounting the expected future cash flows using prevailing market rates for loans bearing similar security and term to maturity. The amount of the discount so determined is then amortized using the effective interest method as follows:

	<u>May 31</u> <u>2008</u>	<u>Aug. 31</u> <u>2007</u>
Estimated market interest rate at time of advance	10.25%	N/A
Carrying amount, start of period	\$ -	\$ -
Loan proceeds	500,000	-
Discount, added to contributed surplus	(9,018)	-
Interest accreted during period	9,018	-
Carrying amount before repayments	<u>500,000</u>	-
Repayments during period	<u>(400,000)</u>	-
Carrying amount end of period	<u>\$ 100,000</u>	<u>\$ -</u>

### 8. Share capital:

- (a) Authorized
  - Unlimited common shares.
- (b) Issued

	<u>May 31</u> <u>2008</u>	<u>Aug. 31</u> <u>2007</u>
Common shares	\$ 7,672,907	\$ 2,799,891
Value of warrants not yet exercised	<u>647,765</u>	<u>24,902</u>
Share capital	<u>\$ 8,320,672</u>	<u>\$ 2,824,793</u>

	<u>No of shares</u>	<u>Value</u>
Balance August 31, 2006	7,320,000	\$ 709,500
Common shares issued through initial public offering <sup>(1)</sup>	4,400,000	856,394
Flow through shares issued through initial public offering <sup>(2)</sup>	4,000,000	766,632
Shares issued for mining properties	75,000	50,250
Shares issued upon exercise of FT warrants	79,250	27,737
Shares issued upon exercise of WC warrants	979,499	293,850
Shares issued upon exercise of units <sup>(3)</sup>	366,687	58,791
Shares issued upon exercise of underlying WC warrants	<u>95,860</u>	<u>36,737</u>
Common shares - August 31, 2007	<u>17,316,296</u>	<u>\$ 2,799,891</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 8. Share capital (continued):

(b) Issued - continued

Common shares - August 31, 2007	17,316,296	\$ 2,799,891
Common shares issued through private placement offering <sup>(5)</sup>	640,500	419,602
Flow through shares issued through private placement offering <sup>(6)</sup>	1,672,000	1,170,024
Common shares issued through private placement offering <sup>(7)</sup>	933,334	87,596
Flow through shares issued through private placement offering <sup>(8)</sup>	7,025,665	2,692,797
Shares issued for mining properties or rights	70,000	53,800
Shares issued upon exercise of FT warrants	44,750	15,663
Shares issued upon exercise of WC warrants	1,128,768	338,630
Shares issued upon exercise of units <sup>(4)</sup>	391,540	58,974
Shares issued upon exercise of underlying WC warrants	91,040	35,930
Common shares – May 31, 2008	29,313,893	\$ 7,672,907

#### Warrants not yet exercised:

Balance August 31, 2006		\$ -
Value attributed to underlying WC warrants issued		32,881
Value added to common shares upon exercise of underlying WC warrants		(7,979)
Balance - August 31, 2007		24,902
Value attributed to underlying WC warrants issued		38,911
Value attributed to warrants issued in accordance with private placement <sup>(5, 6)</sup>		355,316
Value attributed to warrants issued in accordance with private placement <sup>(7)</sup>		8,672
Value attributed to warrants issued to agents in accordance with private placement <sup>(7, 8)</sup>		51,620
Value of warrants issued to acquire mineral resource property ( <i>Note 6 e</i> )		176,962
Value added to common shares upon exercise of underlying WC warrants		(8,618)
Balance – May 31, 2008		\$ 647,765

<sup>(1)</sup> Reported net of the costs of issuance of \$243,606.

<sup>(2)</sup> Reported net of the \$433,368 estimated tax value of the exploration expenditures renounced by the Company in accordance with the terms of these shares.

<sup>(3)</sup> Reported net of the value of \$32,881 that was attributed to the underlying WC warrants.

<sup>(4)</sup> Reported net of the value of \$38,911 that was attributed to the underlying WC warrants.

<sup>(5)</sup> Reported net of the costs of issuance of \$30,650 and the value of \$190,248 that was attributed to the accompanying warrants

<sup>(6)</sup> Reported net of the \$754,908 estimated tax value of the exploration expenditures to be renounced by the Company in accordance with the terms of these shares and the value of \$165,068 that was attributed to the accompanying warrants.

<sup>(7)</sup> Reported net of the costs of issuance of \$463,732 and the value of \$8,672 that was attributed to the accompanying warrants.

<sup>(8)</sup> Reported net of the \$1,522,602 estimated tax value of the exploration expenditures to be renounced by the Company in accordance with the terms of these shares.

(c) Details of warrants outstanding are as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,876,000 <sup>(1)</sup>	\$ 0.35	December 2008
2,291,753 <sup>(1)</sup>	\$ 0.30	December 2008
81,773 <sup>(2)</sup>	\$ 0.25	December 2008
571,307 <sup>(3)</sup>	\$ 0.30	December 2008
1,376,500 <sup>(4)</sup>	\$ 1.50	December 2009
6,197,333	balance forward to next page	

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 8. Share capital (continued):

(c) Details of warrants outstanding (continued):

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
6,197,333 balance forward from preceding page		
100,000 <sup>(5)</sup>	\$ 1.50	January 2010
1,250,000 <sup>(6)</sup>	\$ 1.50	February 2010
466,666 <sup>(7)</sup>	\$ 0.95	April 2010
<u>477,540 <sup>(8)</sup></u>	\$ 0.95	April 2010
<u>8,491,539</u>		

<sup>(1)</sup> These warrants were issued December 2006 in connection with the initial public offering. There was not sufficient information available to establish the fair market value of these warrants at the time of issuance and accordingly it was set at \$NIL. During the period 44,750 \$0.35 warrants (FT warrants) and 1,128,768 \$0.30 warrants (WC warrants) were exercised.

<sup>(2)</sup> These units are comprised of one common share and one warrant. Each warrant, if acquired, entitles the holder to acquire a common share of the Company for \$0.30 until December 2008. During the period 391,540 units were exercised.

<sup>(3)</sup> Whenever units <sup>(2)</sup> are exercised these underlying WC warrants are issued. During the period 391,540 underlying WC warrants were issued and 91,040 were exercised.

<sup>(4)</sup> These warrants will expire on the earlier of December 31, 2009 and the date, if any, that is thirty (30) days after the tenth consecutive trading day whereby the companies share price closes at \$2.25 or higher. During the period 1,376,500 warrants were issued and none were exercised.

<sup>(5)</sup> These warrants will expire on the earlier of January 3, 2010 and the date, if any, that is thirty (30) days after the tenth consecutive trading day whereby the companies share price closes at \$2.25 or higher. During the period 100,000 warrants were issued and none were exercised.

<sup>(6)</sup> During the period 1,250,000 warrants were issued and none were exercised.

<sup>(7)</sup> During the period 466,667 warrants were issued and none were exercised.

<sup>(8)</sup> During the period 477,540 warrants were issued and none were exercised.

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the period:

	<b>May 31 <u>2008</u></b>	Aug. 31 <u>2007</u>
Dividend yield	NIL	NIL
Risk free interest rate	2.74 - 4.19%	4.02 - 4.29%
Expected stock volatility	61.73 - 70.73%	62.77 - 8.65%
Expected life	1.07 - 2.00 years	1.32 - 1.81 years

(d) Details of options outstanding are as follows:

<u>Common Shares Under Option</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,250,000 <sup>(1)</sup>	\$ 0.47	Mar. 27, 2012
150,000	\$ 0.70	July 6, 2012
<u>10,000</u>	\$ 0.72	Oct. 9, 2012
<u>1,410,000</u>		

<sup>(1)</sup> Each of these options is held by a Director or Officer of the Company.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 8. Share capital (continued):

(e) Stock based compensation:

The Company has a stock option plan under which the aggregate number of common shares reserved for issuance cannot exceed 10% of the number of common shares of the Company that are issued and outstanding. The fair value of any stock options granted during the current year will be determined using the Black-Scholes model and will be reported as Stock option compensation and added to Contributed surplus.

The following weighted average assumptions were used to calculate the fair value of the options granted during the year:

	<b>May 31 2008</b>	Aug. 31 2007
Dividend yield	NIL	NIL
Risk free interest rate	4.35%	3.96 – 4.67%
Expected stock volatility	60.97%	61.27 – 64.85%
Expected life	5 years	5 years

(f) Contributed surplus:

	<b>May 31 2007</b>	Aug. 31 2007
Opening balance	\$ 394,477	\$ -
Discount on non-interest bearing loan ( <i>Note 7</i> )	9,018	-
Compensation expense related to stock options	4,826	394,477
Closing balance	<b>\$ 408,321</b>	<b>\$ 394,477</b>

### 9. Related party transactions:

The following related parties had transactions with the Company during the period or have outstanding balances at the end of the period:

Lapierre Exploration Services (“Lapierre”) is a company that is owned and operated by a Director  
 Geodigital Mapping Systems Inc. (“Geodigital”) is a company owned and operated by a Director  
 Gardiner Roberts LLP (“Gardiner”) is a legal firm in which a Director of the Company is a partner.  
 Robin Lowe (“Lowe”) is a Director of the Company.

Cryo-Line MDI Inc. (“MDI”) is a company owned and operated by a senior Officer

The following transactions have been recorded at exchange amounts established and agreed to by the related parties. All transactions with related parties are in the normal course of operations and have been carried out on the same terms as those accorded to unrelated parties. As at February 29, 2008 a total of \$90,894 (August 31, 2007 - \$39,892) is included in accounts payable and accrued liabilities as a result of these transactions:

		<b>May 31 2008</b>	Aug. 31 2007
Lapierre	Exploration expenditures	\$ 13,717	\$ 80,622
Lapierre	Consulting fees and expenses	118,139	88,471
Geodigital	Exploration expenditures	257,469	217,228
Geodigital	Expenses	15,006	15,427
Gardiner	Cost of share issuance	62,575	-
Gardiner	Professional fees	75,370	128,883
Lowe	Interest accretion	9,018	-
MDI	Consulting fees and expenses	30,264	42,625

Amounts are comprised of fees charged and expenses for which they were reimbursed.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 10. Income taxes:

The Company has the following non-capital loss carry-forwards that can be used to reduce future taxable income. The potential benefit of these losses has not been recognized in these financial statements and will expire, if unused, at the end of the following fiscal years:

2026		\$ 43,000
2027		<u>384,000</u>
		<u>\$ 427,000</u>

In addition, the Company has approximately \$5,000 in Canadian Exploration Expenditures ("CEE") and \$119,000 in Canadian Development Expenditures which may be applied against certain profits realized on its mining properties. None of the benefits of these tax pools have been recognized in these financial statements.

The components of future income tax assets (liabilities) at enacted tax rates are as follows:

	May 31 <u>2008</u>	Aug. 31 <u>2007</u>
Loss carry-forwards	\$ 154,000	\$ 154,000
Renounced CEE	(2,710,878)	(433,368)
Less: valuation allowance	<u>(154,000)</u>	<u>(154,000)</u>
	<u>\$ (2,710,878)</u>	<u>\$ (433,368)</u>

Each of these amounts is subject to verification through audits that may be conducted by Canada Revenue Agency

### 11. Commitments:

- (a) The Company has signed an operating lease for its premises that expires February 2009 and has an option to renew for five years at market rates. The Company is committed under this agreement to pay the following amounts of which \$9,200 has been prepaid:

Twelve months ended May 31, 2009 \$ 10,350

- (b) The Company is committed to making the following payments (cash, exploration expenditures and shares) under the terms of the mineral resource property option agreement as described in Note 6 (b):

	Cash <u>Payments</u>	Exploration <u>Expenditures</u>	Number of <u>Shares</u>
July 2008	\$ 15,000	\$ 100,000	75,000
July 2009	<u>25,000</u>	<u>100,000</u>	-
	<u>\$ 40,000</u>	<u>\$ 200,000</u>	<u>75,000</u>

The Company has incurred \$1,085,976 in exploration expenditures to date and has thereby satisfied this element of the option agreement. All cash payments and share issuances required to date have been made in accordance with the agreement.

- (c) The Company is committed to making the following payments (cash and exploration expenditures) under the terms of the mineral resource property option agreements as described in Note 6 (c):

	Cash <u>Payments</u>	Exploration <u>Expenditures</u>
March 2009	\$ 125,000	\$ 1,300,000
March 2010	390,000	2,600,000
March 2011	<u>1,475,000</u>	<u>4,900,000</u>
	<u>\$ 1,990,000</u>	<u>\$ 8,800,000</u>

The Company has incurred \$3,657,175 in exploration expenditures to date and therefore has exceeded all expenditure requirements to date. All cash payments required to date have been made in accordance with the agreement.

# ROCKCLIFF RESOURCES INC.

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

MAY 31, 2008

### 11. Commitments (continued):

- (d) The Company is committed to making the following payments (cash, exploration expenditures and shares) under the terms of the mineral resource property option agreement as described in Note 6 (d):

	<u>Cash</u> <u>Payments</u>	<u>Exploration</u> <u>Expenditures</u>	<u>Number of</u> <u>Shares</u>
September 2008	\$ 12,500	50,000	20,000
September 2009	15,000	75,000	20,000
September 2010	17,500	100,000	20,000
September 2011	<u>45,000</u>	<u>125,000</u>	<u>20,000</u>
	<u>\$ 90,000</u>	<u>\$ 350,000</u>	<u>80,000</u>

The Company has incurred \$9,705 in exploration expenditures to date and therefore has not yet satisfied this element of the option agreement. All cash payments and share issuances required to date have been made in accordance with the agreement.

- (e) The Company is committed to making the following payments (cash and exploration expenditures) under the terms of the mineral resource property option agreement as described in Note 6 (e):

	<u>Cash</u> <u>Payments</u>	<u>Exploration</u> <u>Expenditures</u>
March 2009	\$ 30,000	\$ -
March 2010	30,000	2,000,000
March 2011	30,000	-
March 2012	<u>30,000</u>	<u>2,000,000</u>
	<u>\$ 120,000</u>	<u>\$ 4,000,000</u>

The Company is also required to complete at least 2,000 metres of diamond drilling no later than March 2009. The Company has not incurred any exploration expenditures to date and therefore has not yet satisfied this element of the option agreement. All cash payments required to date have been made in accordance with the agreement.

### 12. Supplemental Cash Flow Information:

	<u>May 31</u> <u>2008</u>	<u>Aug. 31</u> <u>2007</u>
Operating cash flows include:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash financing and investing activities:		
Shares issued to acquire mineral resource properties	53,800	50,250
Share purchase warrants issued to acquire mineral resource properties	176,962	-
Share purchase warrants issued to agents as part of their fee in connection with a private placement transaction	51,620	-
Canadian exploration expenditures renounced	2,277,510	433,368
Discount on loan payable, added to contributed surplus	9,018	-