

**ROCKCLIFF RESOURCES INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2008 and 2007**

**Auditors' Report**

To the Shareholders of Rockcliff Resources Inc.

We have audited the balance sheets of Rockcliff Resources Inc. as at August 31, 2008 and 2007, and the statements of income, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Markham, Ontario  
December 31, 2008

*Wasserman Ramsay*

Chartered Accountants  
Licensed Public Accountants

# ROCKCLIFF RESOURCES INC.

## BALANCE SHEETS

AUGUST 31, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ -	\$ 913,297
Restricted cash and cash equivalents (Note 4)	2,825,926	270,738
Accounts receivable	52,946	91,985
Prepaid expenses and other assets	<u>219,633</u>	<u>111,570</u>
	3,098,505	1,387,590
Property, plant and equipment (Note 5)	191,281	164,657
Mineral resource properties (Note 6)	<u>7,093,292</u>	<u>1,374,661</u>
	<u>\$ 10,383,078</u>	<u>\$ 2,926,908</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued liabilities	\$ 325,973	\$ 141,257
Future income taxes (Note 9)	<u>1,791,699</u>	<u>433,368</u>
	<u>2,117,672</u>	<u>574,625</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	8,401,435	2,824,793
Contributed surplus (Note 7)	408,321	394,477
Deficit	<u>(544,350)</u>	<u>(866,987)</u>
	<u>8,265,406</u>	<u>2,352,283</u>
	<u>\$ 10,383,078</u>	<u>\$ 2,926,908</u>

*See Note 1 – Nature of operations and going concern assumption*

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

**Approved by the Board:**

**“William R. Johnstone”**  
William R. Johnstone, Director

**“Ken Lapierre”**  
Ken Lapierre, Director

# ROCKCLIFF RESOURCES INC.

## STATEMENT OF INCOME, COMPREHENSIVE INCOME AND DEFICIT FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
Interest income	<u>\$ 27,756</u>	<u>\$ 42,907</u>
Expenses:		
Consulting fees (Note 8)	157,643	101,520
Professional fees (Note 8)	109,225	156,880
Regulatory and transfer agent fees	67,151	70,445
Travel and accommodation	63,975	25,273
General and administrative	52,736	25,605
Insurance	30,805	10,597
Occupancy costs	18,758	18,844
Advertising and promotion	13,865	19,804
Interest accretion (Note 8)	9,018	-
Stock option compensation (Note 7)	4,826	394,477
Mineral resource property abandoned (Note 6)	2,500	-
Amortization	<u>57,283</u>	<u>37,289</u>
	<u>587,785</u>	<u>860,784</u>
Loss before provision for income taxes	(560,029)	(817,877)
Provision for income taxes – future recovery	<u>(882,666)</u>	<u>-</u>
Net income (loss) and comprehensive income (loss) for the year	322,637	(817,877)
Deficit, beginning of year	<u>(866,987)</u>	<u>(49,110)</u>
Deficit, end of year	<u>\$ (544,350)</u>	<u>\$ (866,987)</u>
Net income (loss) per share - basic and diluted	<u>\$ 0.01</u>	<u>\$ (0.06)</u>
Weighted average number of shares - basic and diluted	<u>22,922,595</u>	<u>13,870,528</u>

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

**ROCKCLIFF RESOURCES INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	2008	2007
<b>Cash was provided by (used in) the following activities:</b>		
<b>Operating:</b>		
Net income (loss) for the year	\$ 322,637	\$ (817,877)
Items not involving cash:		
Interest accretion	9,018	-
Stock options compensation	4,826	394,477
Mineral resource property abandoned	2,500	-
Amortization	57,283	37,289
Future income tax recovery	(882,666)	-
Changes in non-cash working capital items		
Accounts receivable	39,039	(70,601)
Prepaid expenses	(108,063)	(74,456)
Accounts payable and accrued liabilities	<u>184,716</u>	<u>127,056</u>
	<u>(370,710)</u>	<u>(404,112)</u>
<b>Financing:</b>		
Proceeds of loan payable	500,000	-
Repayment of loan payable	(500,000)	-
Issuance of share capital	<u>7,542,627</u>	<u>2,498,411</u>
	<u>7,542,627</u>	<u>2,498,411</u>
<b>Investing:</b>		
Acquisition of mining resource properties	(202,686)	(28,730)
Deferred exploration expenditures	(5,243,433)	(1,036,996)
Additions to restricted cash and cash equivalents	(6,305,399)	(1,200,000)
Expenditures from restricted cash and cash equivalents	3,750,211	929,262
Acquisition of property, plant and equipment	<u>(83,907)</u>	<u>(114,291)</u>
	<u>(8,085,214)</u>	<u>(1,450,755)</u>
(Decrease) increase in cash and cash equivalents	(913,297)	643,544
Cash and cash equivalents, beginning of year	<u>913,297</u>	<u>269,753</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 913,297</u>

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

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 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 financial statements have been prepared using Canadian generally accepted accounting principles (GAAP) 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 GAAP. 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 GAAP. 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.

At the time of adoption the Company conducted a comprehensive review of its assets and liabilities to first determine whether each item was or was not a financial instrument and finally to determine the most appropriate classification for its financial instruments. This review resulted in the classification of each financial instrument asset as either held for trading or loans while each financial instrument liability was classified either as loans or other financial instruments.

There were no adjustments required as a result of the adoption of these new standards. Furthermore, the Company's comprehensive income for the current year 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 GAAP 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 year. 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 FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

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

#### Property, plant and equipment:

Property, plant and equipment, is recorded at cost. Amortization is provided over the assets' estimated useful lives using the following annual rates and methods:

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

In the year of acquisition one-half of the rates noted above are used.

#### 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 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 year presented the outstanding warrants are considered to be anti-dilutive and accordingly this information has not been presented.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 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.

#### **Future accounting pronouncements:**

The Company will adopt new accounting policies, or alter existing policies, in accordance with pronounced changes in Canadian GAAP. The following represent the pronounced changes that will affect future periods.

#### Financial instruments – Disclosure and presentation:

CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" replace Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

#### Capital disclosures:

CICA Handbook Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of these sections is not expected to have a significant impact on the Company's consolidated financial statements.

#### International reporting standards:

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the transition to International Financial Reporting Standards from Canadian GAAP will occur on January 1, 2011 for public entities. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 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.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

#### 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 qualified exploration and development expenditures associated with its resource mineral properties

	2008	2007
Balance at beginning of year	\$ 270,738	\$ -
Gross proceeds raised upon the issuance of flow through shares	6,305,399	1,200,000
Qualified exploration expenditures paid from these funds	(3,254,258)	(929,262)
Exploration and other expenditures paid from these funds	<u>(495,953)</u>	<u>-</u>
Funds retained for future payments	\$ 2,825,926	\$ 270,738
Balance of future payments to be made from these funds	<u>(3,321,879)</u>	<u>(270,738)</u>
Deficiency of funds	<u>\$ (495,953)</u>	<u>\$ -</u>

The Company is obligated to fund this deficiency.

#### 5 Property, plant and equipment:

2008	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Office furniture and equipment	\$ 68,446	\$ 20,434	\$ 48,012
Leasehold improvements	56,293	25,367	30,926
Exploration equipment	101,898	19,013	82,885
Computer equipment	36,948	15,616	21,332
Computer software	<u>28,210</u>	<u>20,084</u>	<u>8,126</u>
	<u>\$ 291,795</u>	<u>\$ 100,514</u>	<u>\$ 191,281</u>

  

2007	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
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	<u>11,959</u>	<u>5,979</u>	<u>5,980</u>
	<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.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 6 Mineral resource properties (continued):

	<u>2008</u>	<u>2007</u>
Opening balance	\$ 1,374,661	\$ 258,685
Mineral resource property abandoned	(2,500)	-
Exploration expenditures	5,286,171	1,036,996
Government grants received	(41,488)	-
Acquisition of mining properties	<u>476,448</u>	<u>78,980</u>
Closing balance	<u>\$ 7,093,292</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)	1,307,405	1,189,317
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (c)	4,021,681	165,219
Optioned property (Jackfish), Snow Lake Mining District, Manitoba (d)	181,793	7,100
Optioned property (Tower), Thompson Nickel Belt, Manitoba (e)	206,962	-
Staked properties, Snow Lake Mining District, Manitoba (f)	669,242	10,525
Licensed properties, Snow Lake Mining District, Manitoba (g)	<u>706,209</u>	<u>-</u>
	<u>\$ 7,093,292</u>	<u>\$ 1,374,661</u>

- (a) The Company held a 100% interest in the Horwood property which was comprised of 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 the Shihan property which is comprised of 27 claims representing 388 claim units located in Challengier, 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 \$35,000, has issued 350,000 common shares and must make an additional cash payment of \$25,000 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 also reimbursed the vendors an additional \$30,320 in staking fees for claims included under the agreement.
- (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, the HudBay properties, 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 and sufficient expenditures have been made to satisfy the 2009 requirements on three of the seven properties. 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.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 6 Mineral resource properties (continued):

- (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, in the 28 km<sup>2</sup> Jackfish 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 has made sufficient expenditures to date to satisfy the 2008 and 2009 requirements. 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, in the Tower 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 February until 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. A dispute between the Manitoba government and a First Nations tribe has led to a cessation of the timeline for the above noted payments and expenditure commitments. This timeline will recommence when the dispute is resolved.
- (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 staked 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 six 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.

### 7 Share capital:

(a) Authorized

Unlimited common shares.

(b) Issued

	<u>2008</u>	<u>2007</u>
Common shares	\$ 7,753,670	\$ 2,799,891
Warrants not yet exercised	<u>647,765</u>	<u>24,902</u>
Share capital	<u>\$ 8,401,435</u>	<u>\$ 2,824,793</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 7 Share capital (continued):

(b) Issued (continued)

<b>Common shares:</b>	<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
FT warrants exercised	79,250	27,737
WC warrants exercised	979,499	293,850
Units exercised <sup>(3)</sup>	366,687	58,791
Underlying warrants exercised	<u>95,860</u>	<u>36,737</u>
Common shares - August 31, 2007	17,316,296	2,799,891
Common shares issued through private placement offering <sup>(4)</sup>	640,500	419,602
Flow through shares issued through private placement offering <sup>(5)</sup>	1,672,000	1,170,024
Common shares issued through private placement offering <sup>(6)</sup>	933,334	87,596
Flow through shares issued through private placement offering <sup>(7)</sup>	7,025,665	2,729,310
Shares issued for mining properties or rights	145,000	98,050
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>(8)</sup>	391,540	58,974
Shares issued upon exercise of underlying WC warrants	<u>91,040</u>	<u>35,930</u>
Common shares – August 31, 2008	<u>29,388,893</u>	<u>\$ 7,753,670</u>
<b>Warrants not yet exercised:</b>		
Balance August 31, 2006		\$ -
Value attributed to underlying WC warrants issued		32,881
Value added to common shares upon exercise of underlying WC warrants		<u>(7,979)</u>
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		355,316
Value attributed to warrants issued in accordance with private placement		8,672
Value attributed to warrants issued to agents in accordance with private placement		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		<u>(8,618)</u>
Balance – August 31, 2008		<u>\$ 647,765</u>

<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 costs of issuance of \$30,650 and the value of \$190,248 that was attributed to the accompanying warrants

<sup>(5)</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>(6)</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>(7)</sup> Reported net of the \$1,486,089 estimated tax value of the exploration expenditures to be renounced by the Company in accordance with the terms of these shares.

<sup>(8)</sup> Reported net of the value of \$38,911 that was attributed to the underlying WC warrants.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 7 Share capital (continued):

(c) 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>(2)</sup>		

  

<u>Description</u>	<u>Common Shares Under Option</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Beginning of year	1,400,000	\$0.49	Apr. 6, 2012
Issued during year	<u>10,000</u>	\$0.72	Oct. 9, 2012
End of year	<u>1,410,000</u>	\$0.50	Apr. 8, 2012

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

<sup>(2)</sup> Each of these options have vested and are currently available to be exercised at the holders' discretion.

(d) 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, 9)</sup>	\$ 0.35	December 8, 2008
	2,291,753 <sup>(1, 9)</sup>	\$ 0.30	December 8, 2008
	81,773 <sup>(2, 9)</sup>	\$ 0.25	December 8, 2008
	571,307 <sup>(3, 9)</sup>	\$ 0.30	December 8, 2008
	1,376,500 <sup>(4)</sup>	\$ 1.50	December 31, 2009
	100,000 <sup>(5)</sup>	\$ 1.50	January 3, 2010
	1,250,000 <sup>(6)</sup>	\$ 1.50	February 21, 2010
	466,666 <sup>(7)</sup>	\$ 0.95	April 30, 2010
	<u>477,540</u> <sup>(8)</sup>	\$ 0.95	April 30, 2010
	<u>8,491,539</u>		

  

<u>Description</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Beginning of year	6,085,391	\$0.31	December 8, 2008
Issued during year	4,062,246	\$1.26	January 6, 2010
Exercised during year	<u>(1,656,098)</u>	\$0.29	December 8, 2008
End of year	<u>8,491,539</u>	\$1.61	June 14, 2009

<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 year 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 year 391,540 units were exercised.

<sup>(3)</sup> Whenever units <sup>(2)</sup> are exercised these underlying WC warrants are issued. During the year 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 Company's share price closes at \$2.25 or higher. During the year 1,376,500 warrants were issued and none were exercised..

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 7 Share capital (continued):

(d) Details of warrants outstanding (continued):

- <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 Company's share price closes at \$2.25 or higher. During the year 100,000 warrants were issued and none were exercised.
- <sup>(6)</sup> During the year 1,250,000 warrants were issued and none were exercised.
- <sup>(7)</sup> During the year 466,667 warrants were issued and none were exercised.
- <sup>(8)</sup> During the year 477,540 warrants were issued and none were exercised.
- <sup>(9)</sup> These warrants were not exercised and expired subsequent to the balance sheet date.

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

	<u>2008</u>	<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 - 68.65%
Expected life	1.07 - 2.00 years	1.32 - 1.81 years

(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:

	<u>2008</u>	<u>2007</u>
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:

	<u>2008</u>	<u>2007</u>
Opening balance	\$ 394,477	\$ -
Discount on non-interest bearing loan ( <i>Note 7</i> )	9,018	-
Compensation expense related to stock options	<u>4,826</u>	<u>394,477</u>
Closing balance	<u>\$ 408,321</u>	<u>\$ 394,477</u>

### 8 Related party transactions:

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

- 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 August 31, 2008 a total of \$35,360 (2007 - \$39,892) is included in accounts payable and accrued liabilities as a result of these transactions:

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 8 Related party transactions (continued):

		<u>2008</u>	<u>2007</u>
Lapierre	Exploration expenditures	\$ 58,146	\$ 80,622
Lapierre	Consulting fees and expenses	126,582	88,471
Geodigital	Exploration expenditures	325,889	217,228
Geodigital	Consulting fees and expenses	15,982	15,427
Gardiner	Cost of share issuance	62,575	-
Gardiner	Professional fees	83,253	128,883
Lowe	Interest accretion	9,018	-
MDI	Consulting fees and expenses	38,313	42,625

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

### 9 Income taxes:

#### Current income taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company's effective tax rate of 34.37% (2007 – 36.12%) is as follows:

	<u>2008</u>	<u>2007</u>
Net loss for the year	\$ (560,029)	\$ (817,877)
Income taxes at statutory rates	\$ (192,501)	\$ (295,417)
Expenses not deductible for income tax purposes	6,594	143,089
Accounting amortization in excess of capital cost allowance claimed	19,690	13,469
Mineral resource property abandoned	<u>859</u>	<u>-</u>
	(165,358)	(138,859)
Non-capital losses reported	<u>165,358</u>	<u>138,859</u>
Current income tax expense	\$ -	\$ -

#### Tax losses and other deductions carried forward:

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	\$ 42,912
2027	384,438
2028	<u>481,062</u>
	<u>\$ 908,412</u>

In addition, the Company has approximately \$1,981,768 in Canadian Exploration Expenditures ("CEE") and \$736,014 in Canadian Development Expenditures which may be applied against certain profits realized on its mining properties. The potential benefit of these tax pools has not been recognized in these financial statements.

The full realization of these losses and other deductions carried forward are subject to the result of audits, if conducted, by Canada Revenue Agency.

#### Future income taxes:

	<u>2008</u>	<u>2007</u>
Opening balance	\$ 433,368	\$ -
Exploration expenditures renounced during year	2,240,997	433,368
Exploration expenditures deferred for income tax purposes	(788,157)	-
Future income taxes (recovered) due to change in tax rates	<u>(94,509)</u>	<u>-</u>
Closing balance	<u>\$ 1,791,699</u>	<u>\$ 433,368</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 9 Income taxes (continued):

#### Future income taxes (continued):

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	<u>2008</u>	<u>2007</u>
Non-capital losses	\$ 263,439	\$ 138,889
Undepreciated capital cost	29,149	14,050
Cumulative exploration and development expenditures	788,157	170,260
Renounced cumulative exploration expenditures	(2,579,856)	(433,368)
Valuation allowance	(292,588)	(323,199)
	<u>\$ (1,791,699)</u>	<u>\$ (433,368)</u>

### 10 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 \$5,750 has been prepaid:

2009		<u>\$ 6,900</u>
------	--	-----------------

The Company has signed an operating lease for a facility in Manitoba to be used for the storing and cataloguing of drill core removed from its resource properties. This lease will expire December 2010 and has an option to renew for an additional three year period. The Company is committed under this agreement to pay the following amounts of which \$6,000 has been prepaid:

2009	\$	18,000
2010		18,000
2011		<u>6,000</u>
		<u>\$ 42,000</u>

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

	<u>Cash</u> <u>Payments</u>	<u>Exploration</u> <u>Expenditures</u>	<u>Number of</u> <u>Shares</u>
July 2009	<u>\$ 25,000</u>	<u>\$ -</u>	<u>-</u>

The Company has incurred \$1,095,505 in exploration expenditures to date and has fully 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 future payments (cash and exploration expenditures) under the terms of the HudBay property option agreements as described in Note 6 (c):

	<u>Cash</u> <u>Payments</u>	<u>Exploration</u> <u>Expenditures</u>
March 2009	\$ 125,000	\$ 550,000
March 2010	390,000	2,150,000
March 2011	<u>1,475,000</u>	<u>4,100,000</u>
	<u>\$ 1,990,000</u>	<u>\$ 6,800,000</u>

The Company has incurred \$3,928,594 in exploration expenditures and has satisfied all expenditure requirements to date. All cash payments required to date have been made in accordance with the agreement.

# ROCKCLIFF RESOURCES INC.

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

### 10 Commitments (continued):

- (d) The Company is committed to making the following future payments (cash, exploration expenditures and shares) under the terms of the Jackfish 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	-	20,000
September 2009	15,000	-	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>\$ 225,000</u>	<u>80,000</u>

The Company has incurred \$145,993 in exploration expenditures to date and therefore has satisfied the 2008 and 2009 expenditure element of the option agreement. All cash payments and share issuances required to date have been made in accordance with the agreement. Subsequent to the year end the Company made the payments of cash and shares that came due.

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

	<u>Cash</u> <u>Payments</u>	<u>Exploration</u> <u>Expenditures</u>
1 <sup>st</sup> anniversary date	\$ 30,000	\$ -
2 <sup>st</sup> anniversary date	30,000	2,000,000
3 <sup>st</sup> anniversary date	30,000	-
4 <sup>st</sup> anniversary date	<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 made the initial payment of cash and shares in accordance with the agreement but has not yet commenced drilling or incurred other exploration expenditures. A dispute between the Manitoba government and a First Nations tribe has led to a cessation of the timeline for the above noted payments and expenditure commitments. This timeline will recommence when the dispute is resolved.

### 11 Supplemental cash flow information:

	<u>2008</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	\$ 98,050	\$ 50,250
Share purchase warrants issued to acquire mineral resource properties	176,962	-
Share purchase warrants issued as fee to placement agents	51,620	-
Canadian exploration expenditures renounced	2,240,997	433,368