

ROCKCLIFF RESOURCES INC.

FINANCIAL STATEMENTS

AUGUST 31, 2009 and 2008

Wasserman Ramsay

Chartered Accountants

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Auditors' Report

To the Shareholders of Rockcliff Resources Inc.

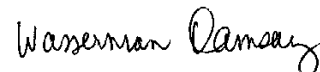
We have audited the balance sheets of Rockcliff Resources Inc. as at August 31, 2009 and 2008, and the statements of income, comprehensive income and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is 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, 2009 and 2008 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 22, 2009



Chartered Accountants

Licensed Public Accountants

ROCKCLIFF RESOURCES INC.

BALANCE SHEETS AUGUST 31, 2009 and 2008

	2009	2008
ASSETS		
Current:		
Restricted cash and cash equivalents <i>(Note 4)</i>	\$ 800,222	\$ 2,825,926
Accounts receivable	10,077	52,946
Prepaid expenses and other assets	<u>72,619</u>	<u>219,633</u>
	882,918	3,098,505
Property, plant and equipment <i>(Note 5)</i>	142,083	191,281
Mineral resource properties <i>(Note 6)</i>	<u>8,429,401</u>	<u>7,093,292</u>
	<u>\$ 9,454,402</u>	<u>\$ 10,383,078</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 96,546	\$ 325,973
Future income taxes <i>(Note 9)</i>	<u>1,701,899</u>	<u>1,791,699</u>
	<u>1,798,445</u>	<u>2,117,672</u>
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 7)</i>	8,352,240	8,401,435
Contributed surplus <i>(Note 7)</i>	624,921	408,321
Deficit	<u>(1,321,204)</u>	<u>(544,350)</u>
	<u>7,655,957</u>	<u>8,265,406</u>
	<u>\$ 9,454,402</u>	<u>\$ 10,383,078</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, 2009 AND 2008

	2009	2008
Interest income	<u>\$ 27,921</u>	<u>\$ 27,756</u>
Expenses:		
Mineral resource properties abandoned <i>(Note 6(f))</i>	406,059	2,500
Stock option compensation <i>(Note 7)</i>	161,405	4,826
Professional fees <i>(Note 8)</i>	102,466	109,225
Consulting fees <i>(Note 8)</i>	44,600	157,643
General and administrative	30,986	52,736
Insurance	29,802	30,805
Regulatory and transfer agent fees	22,575	67,151
Occupancy costs	19,814	18,758
Travel and accommodation	19,807	63,975
Advertising and promotion	4,735	13,865
Interest accretion <i>(Note 8)</i>	-	9,018
Amortization	<u>52,326</u>	<u>57,283</u>
	<u>894,575</u>	<u>587,785</u>
Loss before provision for income taxes	(866,654)	(560,029)
Provision for income taxes – future recovery	<u>(89,800)</u>	<u>(882,666)</u>
Net (loss) income and comprehensive (loss) income for the year	(776,854)	322,637
Deficit, beginning of year	<u>(544,350)</u>	<u>(866,987)</u>
Deficit, end of year	<u>\$ (1,321,204)</u>	<u>\$ (544,350)</u>
Net income (loss) per share - basic and diluted	<u>\$ (0.03)</u>	<u>\$ 0.01</u>
Weighted average number of shares - basic and diluted	<u>29,408,455</u>	<u>22,922,595</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, 2009 AND 2008

	2009	2008
Cash was provided by (used in) the following activities:		
Operating:		
Net income (loss) for the year	\$ (776,854)	\$ 322,637
Items not involving cash:		
Interest accretion	-	9,018
Stock options compensation	161,405	4,826
Mineral resource property abandoned (Note 6(f))	406,059	2,500
Amortization	52,326	57,283
Future income tax recovery	(89,800)	(882,666)
Changes in non-cash working capital items		
Accounts receivable	43,070	39,039
Prepaid expenses	147,014	(108,063)
Accounts payable and accrued liabilities	<u>(229,427)</u>	<u>184,716</u>
	<u>(286,207)</u>	<u>(370,710)</u>
Financing:		
Proceeds of loan payable	-	500,000
Repayment of loan payable	-	(500,000)
Issuance of share capital	<u>-</u>	<u>7,542,627</u>
	<u>-</u>	<u>7,542,627</u>
Investing:		
Acquisition of mining resource properties	(40,661)	(202,686)
Deferred exploration expenditures	(1,703,071)	(5,243,433)
Additions to restricted cash and cash equivalents	-	(6,305,399)
Expenditures from restricted cash and cash equivalents	2,033,067	3,750,211
Acquisition of property, plant and equipment	<u>(3,128)</u>	<u>(83,907)</u>
	<u>286,207</u>	<u>(8,085,214)</u>
Decrease in cash and cash equivalents	-	(913,297)
Cash and cash equivalents, beginning of year	<u>-</u>	<u>913,297</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 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 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, 2008 the Company adopted the following new accounting standards:

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. The adoption of these sections had no significant impact on the Company's 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. The adoption of this section had no significant impact on the Company's financial statements.

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, 2009 AND 2008

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 deferred and charged to mineral resource properties 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 resource 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 resource property when the carrying value of the property is not recoverable or exceeds its fair value. Mineral resource 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, 2009 AND 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.

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.

International financial reporting standards (IFRS):

The Canadian Institute of Chartered Accountants' Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011. While early adoption is permitted the Company has opted not to utilize this option and therefore will commence with the fiscal quarter ended November 30, 2011 with comparative figures. The Corporation is in the process of developing a plan for the implementation of IFRS, and it is expected that this plan will take into consideration, amongst other things:

- (a) Identification of differences in Canadian GAAP and IFRS accounting policies and choices and their impacts on the Corporation's financial statements.
- (b) Selection of the Corporation's continuing IFRS policies.
- (c) Changes in note disclosures.
- (d) Information technology and data system requirements.
- (e) Disclosure controls and procedures, including investor relations and external communications plans related to the IFRS conversion.
- (f) Identification of impacts of IFRS conversion on Internal Controls over Financial Reporting.
- (g) Financial reporting expertise requirements, including training of personnel.
- (h) Impacts on other business activities that may be influenced by GAAP measures, such as debt covenants.

It is not practically possible at this time to quantify the impact of these differences. The Corporation expects to make changes to processes and systems in time to enable the Corporation to record transactions under IFRS for the fiscal year ending August 31, 2011 and ensure that they may be presented for comparative purposes in all fiscal 2012 financial reporting.

3 Financial instruments:

The Company has determined the most appropriate classification for its financial instruments such that each financial asset is classified as either held for trading or loans and receivables while each financial liability is classified as either held for trading or other financial instruments. The classifications have remained unchanged since initial recognition.

The Company's comprehensive income for the current and prior years is equal to its net income and there is no balance to be reported as accumulated other comprehensive income.

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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

3 Financial instruments (continued):

Risks:

The Company is exposed to credit risk and liquidity risk. The Company's primary risk management objective is to protect assets, earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Company's risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risks to which the Company is exposed or to the corresponding risk management strategies during the current year.

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 contain any past due amounts and 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 qualified exploration and development expenditures associated with its mineral resource properties.

	2009	2008
Balance at beginning of year	\$ 2,825,926	\$ 270,738
Gross proceeds derived from the issuance of flow through shares	-	6,305,399
Qualified exploration expenditures paid from these funds	(2,110,745)	(3,254,258)
Exploration and other expenditures recovered (paid from) these funds	<u>85,041</u>	<u>(495,953)</u>
Funds retained for future payments	\$ 800,222	\$ 2,825,926
Balance of future payments to be made from these funds	<u>(1,211,134)</u>	<u>(3,321,879)</u>
Deficiency of funds	<u>\$ (410,912)</u>	<u>\$ (495,953)</u>

The Company is obligated to fund this deficiency through working capital and to do so no later than December 31, 2009. Subsequent to the year end the Company completed a private placement transaction (*Note 13*) whereby \$500,000 was raised reducing the deficiency to zero.

5 Property, plant and equipment:

2009	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 69,509	\$ 30,143	\$ 39,366
Leasehold improvements	56,293	36,626	19,667
Exploration equipment	102,986	35,699	67,287
Computer equipment	37,925	22,162	15,763
Computer software	<u>28,210</u>	<u>28,210</u>	-
	<u>\$ 294,923</u>	<u>\$ 152,840</u>	<u>\$ 142,083</u>

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

5 Property, plant and equipment (continued):

2008	Cost	Accumulated Amortization	Net Book Value
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	28,210	20,084	8,126
	<u>\$ 291,975</u>	<u>\$ 100,514</u>	<u>\$ 191,281</u>

6 Mineral resource properties:

The Company is in the process of exploring its mineral resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral resource 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.

	2009	2008
Opening balance	\$ 7,093,292	\$ 1,374,661
Mineral resource property abandoned (Note 6(f))	(406,059)	(2,500)
Exploration expenditures	1,859,658	5,286,171
Government grants received	(164,151)	(41,488)
Acquisition of mining properties	<u>46,661</u>	<u>476,448</u>
Closing balance	<u>\$ 8,429,401</u>	<u>\$ 7,093,292</u>
Represented by:		
Staked property (Shihan), Sault Saint Marie Mining Division, Ontario (a)	\$ 1,343,555	\$ 1,307,405
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (b)	5,103,635	4,021,681
Optioned property (Jackfish), Snow Lake Mining District, Manitoba (c)	692,655	181,793
Optioned property (Tower), Thompson Nickel Belt, Manitoba (d)	207,382	206,962
Staked properties, Snow Lake Mining District, Manitoba (e)	1,082,174	669,242
Licensed properties, Snow Lake Mining District, Manitoba (f)	-	706,209
	<u>\$ 8,429,401</u>	<u>\$ 7,093,292</u>

(a) The Company holds 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 Challenger, Glasgow, Meath and Rennie Townships in the Sault Saint Marie Mining Division in the Province of Ontario. The final option payment of \$25,000 was due in July and was settled after the balance sheet date through the issuance of 333,334 common shares. Upon issuance of these shares the Company has satisfied all of the terms of the agreement and exercised its option to acquire this property.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

6 Mineral resource properties (continued):

- (b) 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. To date the Company has paid \$70,000 and must also make the following cash payments in order to exercise its options: (i) \$125,000 on or before March 22, 2010 (ii) \$390,000 on or before March 22, 2011 and, (iii) \$1,600,000 on or before March 22, 2012. This payment schedule has been revised from the original schedule such that each of the payments noted above were deferred by one year and the final payment was increased by \$125,000 as compensation for the revision. In addition, the Company must spend at least \$9,800,000 exploring the properties with minimum expenditures by year as follows: (i) \$2,600,000 on or before March 22, 2010 and (ii) \$4,900,000 on or before March 22, 2011. The March 2009 cumulative expenditure requirements of \$2,300,000 were 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.
- (c) 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 km² Jackfish property located in the Snow Lake District in Manitoba. To date the Company has paid \$22,500 cash and issued 40,000 common shares and must also make the following payments in order to exercise its option: (i) \$15,000 cash and issue 20,000 common shares on or before September 17, 2009; (ii) \$17,500 cash and issue 20,000 common shares on or before September 17, 2010; and (iii) \$45,000 cash and issue 20,000 common shares on or before September 17, 2011. The Company was also required to spend a minimum of \$350,000 exploring the property which has been satisfied. 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.
- (d) 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 four annual cash payments of \$30,000. 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 the first anniversary date and has incurred a minimum of \$2,000,000 in exploration expenditures by the second anniversary date. 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 the fourth anniversary date. A dispute between the Manitoba government and a First Nations tribe prevented the timelines noted above from starting. These timelines will commence when the dispute is resolved.
- (e) 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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

6 Mineral resource properties (continued):

(f) The Company initially held six mineral exploration licenses in the Snow Lake District in Manitoba however each of them was surrendered during the year. Prior to surrendering the licenses the Company had conducted exploratory work valued at \$729,657. This total includes \$406,059 spent on licensed areas within which no ground was staked and accordingly this amount has been charged to income of the current year. The remaining \$323,598 has been transferred to, and is now included with, the staked properties in accordance with paragraph 6 (e) above.

7 Share capital:

(a) Authorized

Unlimited common shares.

(b) Issued

	2009	2008
Common shares	\$ 7,759,670	\$ 7,753,670
Warrants not yet exercised	<u>592,570</u>	<u>647,765</u>
Share capital	<u>\$ 8,352,240</u>	<u>\$ 8,401,435</u>

Common shares:

	No of shares	Value
Common shares - August 31, 2007	17,316,296	\$ 2,799,891
Common shares issued through private placement offering ⁽¹⁾	640,500	419,602
Flow through shares issued through private placement offering ⁽²⁾	1,672,000	1,170,024
Common shares issued through private placement offering ⁽³⁾	933,334	87,596
Flow through shares issued through private placement offering ⁽⁴⁾	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 ⁽⁵⁾	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	29,388,893	7,753,670
Shares issued for mining properties or rights	<u>20,000</u>	<u>6,000</u>
Common shares – August 31, 2009	<u>29,408,893</u>	<u>\$ 7,759,670</u>

Warrants not yet exercised:

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 (Note 6 e)	176,962
Value added to common shares upon exercise of underlying WC warrants	<u>(8,618)</u>
Balance - August 31, 2008	647,765
Value added to contributed surplus upon expiry of underlying WC warrants	<u>(55,195)</u>
Balance – August 31, 2009	<u>\$ 592,570</u>

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

7 Share capital (continued):

(b) Issued (continued)

- (1) Reported net of the costs of issuance of \$30,650 and the value of \$190,248 that was attributed to the accompanying warrants
- (2) 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.
- (3) Reported net of the costs of issuance of \$463,732 and the value of \$8,672 that was attributed to the accompanying warrants.
- (4) 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.
- (5) Reported net of the value of \$38,911 that was attributed to the underlying WC warrants.

(c) Details of options outstanding are as follows:

	Common Shares Under Option	Exercise Price	Expiry Date
	1,100,000 ⁽¹⁾	\$0.47	Mar. 27, 2012
	100,000	\$0.70	July 6, 2012
	<u>1,400,000</u> ⁽¹⁾	\$0.15	June 17, 2014
	<u>2,600,000</u> ⁽⁴⁾		

Description	Common Shares Under Option	Weighted Average Exercise Price	Weighted Average Expiry Date
Beginning of year	1,410,000	\$0.50	Apr. 8, 2012
Granted during the year	1,400,000 ⁽¹⁾	\$0.15	June 17, 2014
Expired during year	(150,000) ⁽²⁾	\$0.47	Mar. 27, 2012
Expired during year	(50,000) ⁽³⁾	\$0.70	July 6, 2012
Expired during year	<u>(10,000)</u> ⁽³⁾	\$0.72	Oct. 9, 2012
End of year	<u>2,600,000</u>	\$0.31	June 11, 2013

Subsequent to the balance sheet date an aggregate of 250,000 options were granted to a Director and an Officer of the Company. These options have an exercise price of \$0.20 and will expire on Oct. 19, 2014.

- (1) Each of these options is held by a Director or Officer of the Company.
- (2) These options were held by a former Director that did not stand for re-election at the annual general meeting held June 2, 2009. He had 90 days after ceasing to be a Director within which to exercise the options, which he chose not to do, and accordingly they expired on August 31, 2009.
- (3) These options were held by consultants whom are no longer retained by the Company. They had 30 days following cessation of services within which to exercise their options, which they chose not to do, and accordingly they expired on January 30, 2009.
- (4) Each of these options has vested and is currently available to be exercised at the holders' discretion.

(d) Details of warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,376,500 ⁽¹⁾	\$ 1.50	December 31, 2009
100,000 ⁽²⁾	\$ 1.50	January 3, 2010
1,250,000	\$ 1.50	February 21, 2010
466,666	\$ 0.95	April 30, 2010
<u>477,540</u>	\$ 0.95	April 30, 2010
<u>3,670,706</u>		

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

7 Share capital (continued):

(d) Details of warrants outstanding are as follows (continued):

Description	Number of Warrants	Weighted Average Exercise Price	Weighted Average Expiry Date
Beginning of year	8,491,539	\$0.77	June 14, 2009
Expired during year	<u>(4,820,833)</u>	\$0.32	December 8, 2008
End of year	<u>3,670,706</u>	\$1.36	February 17, 2010

⁽¹⁾ These warrants will expire on the earlier of December 31, 2009 and the date, if any, that is 30 days after the tenth consecutive trading day whereby the Company's share price closes at \$2.25 or higher.

⁽²⁾ These warrants will expire on the earlier of January 3, 2010 and the date, if any, that is 30 days after the tenth consecutive trading day whereby the Company's share price closes at \$2.25 or higher.

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

	2009	2008
Dividend yield	None issued	NIL
Risk free interest rate	None issued	2.74 - 4.19%
Expected stock volatility	None issued	61.73 - 70.73%
Expected life	None issued	1.07 - 2.00 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:

	2009	2008
Dividend yield	Nil	NIL
Risk free interest rate	2.60%	4.35%
Expected stock volatility	142.00%	60.97%
Expected life	5 years	5 years

(f) Contributed surplus:

	2009	2008
Opening balance	\$ 408,321	\$ 394,477
Expiry of warrants	55,195	-
Discount on non-interest bearing loan (<i>Note 7</i>)	-	9,018
Compensation expense related to stock options	<u>161,405</u>	<u>4,826</u>
Closing balance	<u>\$ 624,921</u>	<u>\$ 408,321</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") was a Director of the Company who did not stand for re-election at the annual general meeting held June 2, 2009. All reported transactions arose prior to that date.

Cryo-Line MDI Inc. ("MDI") is a company owned and operated by a senior officer.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

8 Related party transactions (continued):

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, 2009 a total of \$22,756 (2008 - \$35,360) is included in accounts payable and accrued liabilities as a result of these transactions:

		2009	2008
Lapierre	Exploration expenditures	\$ 188,909	\$ 58,146
Lapierre	Consulting fees and expenses	8,702	126,582
Geodigital	Exploration expenditures	196,526	325,889
Geodigital	Consulting fees and expenses	-	15,982
Gardiner	Cost of share issuance	-	62,575
Gardiner	Professional fees	71,620	83,253
Lowe	Interest accretion	-	9,018
MDI	Consulting fees and expenses	35,398	38,313

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 33.17% (2008 - 34.37%) is as follows:

	2009	2008
Net loss for the year	<u>\$ (866,654)</u>	<u>\$ (560,029)</u>
Income taxes at statutory rates	\$ (287,443)	\$ (192,501)
Expenses not deductible for income tax purposes	53,826	6,594
Accounting amortization in excess of capital cost allowance claimed	17,355	19,690
Mineral resource property abandoned	<u>134,678</u>	<u>859</u>
	<u>(81,584)</u>	<u>(165,358)</u>
Non-capital losses reported	<u>81,584</u>	<u>165,358</u>
Current income tax expense	<u>\$ -</u>	<u>\$ -</u>

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	481,062
2029	<u>245,981</u>
	<u>\$ 1,154,393</u>

In addition, the Company has approximately \$1,817,617 in Canadian Exploration Expenditures ("CEE") and \$757,675 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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

9 Income taxes (continued):

Future income taxes:

	2009	2008
Opening balance	\$ 1,791,699	\$ 433,368
Exploration expenditures renounced during year	-	2,240,997
Exploration expenditures deferred for income tax purposes	(107,980)	(788,157)
Future income taxes (recovered) due to change in tax rates	<u>18,180</u>	<u>(94,509)</u>
Closing balance	<u>\$ 1,701,899</u>	<u>\$ 1,791,699</u>

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:

	2009	2008
Non-capital losses	\$ 288,598	\$ 263,439
Undepreciated capital cost	38,210	29,149
Cumulative exploration and development expenditures	643,823	788,157
Renounced cumulative exploration expenditures	(2,345,722)	(2,579,856)
Valuation allowance	<u>(326,808)</u>	<u>(292,588)</u>
	<u>\$ (1,701,899)</u>	<u>\$ (1,791,699)</u>

10 Commitments:

- (a) The lease covering the Company's office premises expired February 2009 and continued on a month-to-month basis with one month prepaid. Subsequent to the balance sheet date the Company vacated this premises and commenced a new 12 month lease at a new office location at the rate of \$1,000 per month.

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 \$1,500 has been prepaid:

2010	\$	18,000
2011		<u>6,000</u>
		<u>\$ 24,000</u>

- (b) 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 (b):

	Cash Payments	Exploration Expenditures
March 2010	\$ 125,000	\$ 2,150,000
March 2011	390,000	4,100,000
March 2012	<u>1,600,000</u>	<u>-</u>
	<u>\$ 2,115,000</u>	<u>\$ 6,250,000</u>

The Company has incurred \$5,140,024 in exploration expenditures to date, before recoveries aggregating \$129,836, and has satisfied all expenditure requirements to date. All cash payments required to date have been made in accordance with the agreement. During the year the Company reached an agreement with the optionor whereby the cash payments noted above were each deferred one year from their original due dates and \$125,000 was added to the final payment as compensation for this revision.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

10 Commitments (continued):

(c) 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 (c):

	Cash Payments	Number of Shares
September 2009	\$ 15,000	20,000
September 2010	17,500	20,000
September 2011	<u>45,000</u>	<u>20,000</u>
	<u>\$ 77,500</u>	<u>60,000</u>

The Company has incurred \$646,453 in exploration expenditures to date, before recoveries aggregating \$8,098, and has fully satisfied the exploration expenditure requirements of the option agreement. All cash payments and share issuances required to date have been made in accordance with the agreement.

(d) 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 (d):

	Cash Payments	Exploration Expenditures
1 st anniversary date	\$ 30,000	\$ -
2 st anniversary date	30,000	2,000,000
3 st anniversary date	30,000	-
4 st 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 the 1st anniversary date. The Company made the initial payment of cash and share purchase warrants 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. Capital Management:

The Company's objective when managing capital is to ensure its ability to meet operating commitments as they become due. This is achieved primarily by continuously monitoring its actual and projected cash flows and making adjustments to capital as necessary. There are no externally imposed capital requirements.

Management includes the following items in its definition of capital:

	2009	2008
Short-term and long-term debt	\$ -	\$ -
Share Capital	8,352,240	8,401,435
Contributed surplus	624,921	408,321
Deficit	<u>(1,321,204)</u>	<u>(544,350)</u>
Net capital under management	<u>\$ 7,655,957</u>	<u>\$ 8,265,406</u>

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

12 Supplemental cash flow information:

	2009	2008
Operating cash flows include:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash financing and investing activities:		
Shares issued to acquire mineral resource properties	\$ 6,000	\$ 98,050
Expired warrants transferred to contributed surplus	55,195	-
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

13 Subsequent events:

Subsequent to the balance sheet date the following transactions or events took place:

- (a) The Company completed a private placement financing whereby it issued 5,000,000 working capital units for proceeds of \$500,000. Each working capital unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.15 until April 9, 2011. The Company also paid finders' fees in the amount of \$36,000 plus 450,000 compensation units. The units are exercisable at \$0.10 per unit until April 9, 2011 and have the same composition as the working capital units described above.
- (b) The Company announced that it had entered into 3 separate option agreements to acquire 3 gold properties located near Snow Lake Manitoba, which together will be referred to as the Gold Dust Property. The terms of these option agreements are as follows:
 - (i) The first option grants the Company the right to acquire a 100% interest in a 771 hectare property, subject to a 2% net smelter returns royalty in favour of the vendor. The Company issued 40,000 common shares at the time of closing, in accordance this agreement and is also required to make the following payments: (i) \$15,000 cash and 40,000 common shares on or before the first anniversary date; (ii) \$15,000 cash and 40,000 common shares on or before the second anniversary date; (iii) \$25,000 cash and 40,000 common shares on or before the third anniversary date; and (iv) \$45,000 cash and 40,000 common shares on or before the fourth anniversary date. The annual cash payments may also be satisfied through the issuance of common shares with the number of shares determined by dividing the amount due by the closing market price for the shares thirty days before the payment is due. The Company is also required to spend a minimum of \$500,000 exploring the property including \$75,000 by the first anniversary date, plus an additional \$100,000 on or before the second anniversary date, \$150,000 on or before the third anniversary date, and \$175,000 on or before the fourth anniversary date. The Company also has the right to purchase one half or 1.0% of the net smelter returns royalty for \$1,000,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty.
 - (ii) The second option grants the Company the right to acquire a 100% interest, subject to a 2% net smelter returns royalty in favour of the vendor, in a 74 hectare property. The Company made a cash payment of \$40,000 at the time of closing, in accordance this agreement and is also required to make annual cash payments of \$20,000 which, if applicable, will be applied as advances against the net smelter returns royalty. The Company is also required to spend a minimum of \$500,000 exploring the property including at least \$50,000 on or before each of the first ten anniversary dates. The Company has the right to exercise its option to acquire this property at any time once the aggregate expenditure requirement has been satisfied however the annual cash payments will continue so long as the Company has not abandoned the property.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009 AND 2008

13 Subsequent events (continued):

- (iii) The third option grants the Company the right to acquire a 100% interest, subject to a 2% net smelter returns royalty in favour of the vendor, in a 1,270 hectare property. At the time of closing the Company issued 50,000 common shares in accordance this agreement. The agreement also requires payments of 50,000 common shares on each of the first four anniversaries of the closing date. The Company is also required to spend a minimum of \$375,000 exploring the property including \$50,000 by the first anniversary date, plus an additional \$75,000 on or before the second anniversary date, \$100,000 on or before the third anniversary date, and \$150,000 on or before the fourth anniversary date. The Company also has the right to purchase one half or 1.0% of the net smelter returns royalty for \$1,000,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty.
- (c) The Company completed an additional non-brokered private placement whereby it raised gross proceeds of \$3,000,000. The Company issued 8,000,000 flow-through units at a price of \$0.25 each and 5,000,000 working capital units at a price of \$0.20 each. Each flow-through unit is comprised of one common share, designated as a flow-through share, and one-half share purchase warrant. Each working capital unit is comprised of one common share and one share purchase warrant. Each full share purchase warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.40 per share until June 18, 2011. The Company paid finders' fees of \$167,575 cash and 1,017,500 compensation warrants. Each compensation warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.20 per share until June 18, 2011.