

## ROCKCLIFF RESOURCES INC.

Management's Discussion and Analysis

For the Period Ended May 31, 2010

(Prepared as at July 22, 2010)

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The following discussion of financial condition, changes in financial condition and results of operations has been prepared by the Company's management. This document is intended to accompany the unaudited interim financial statements as at May 31, 2010 and should be read in conjunction with those financial statements.

### FORWARD LOOKING INFORMATION

This Management's Discussion & Analysis (MD&A) contains forward-looking statements that involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company, or the industry in which it operates, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, the words "may", "should", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" the negative thereof, other variations thereon, or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made, including those factors summarized below under the heading "Risk Factors" and discussed in filings made by us with the Canadian securities regulatory authorities.

Should one or more of these risks and uncertainties, such as actual results of current exploration programs, the general risks associated with the mining industry, the price of gold and other metals, currency and interest rate fluctuations, increased competition and general economic and market factors, occur or should assumptions underlying the forward looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law. Stakeholders are cautioned not to put undue reliance on such forward-looking statements.

### OVERVIEW

The Company operates a single business segment which is engaged in the exploration for base and precious metals in Manitoba and Ontario. The management of the Company has not changed since the fiscal year end and is comprised of the following individuals:

<u>Name</u>	<u>Position(s) Held</u>
Ken Lapierre, P. Geo	Director, CEO, President
Peter Wood, P. Eng., P. Geo.	Director, VP Exploration
William R. Johnstone, LL.B. <sup>(1)(2)</sup>	Director, Corporate Secretary
Tim Campbell	Director
Denis Arsenault, C.A. <sup>(1)(2)</sup>	Director
Glenn Bowman, F.C.A. <sup>(1)(2)(3)</sup>	Director
Mike Kindy, C.A.	CFO

<sup>(1)</sup> Member of the Company's Audit Committee

<sup>(2)</sup> Member of the Company's Compensation Committee

<sup>(3)</sup> Added to the Board during the period

### OVERALL PERFORMANCE

The third fiscal quarter is traditionally a period in which the Company's exploration activities are relatively quiet. The winter exploration program draws to a close as the spring thaw commences and the wet weather makes it impractical to begin the summer program in earnest. The spring of 2010 was particularly wet and therefore exploration activities were limited during this period with expenditures aggregating only \$434,859.

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### **OVERALL PERFORMANCE – (continued)**

While exploration activities are relatively slow the Company devotes a significant amount of its time and human resources to the administration and evaluation of its existing properties and to its quest to obtain additional properties of merit. With respect to the addition of properties the Company secured the work permit which will enable the commencement of exploration on its Tower property and finalized an option agreement on a VMS property located in very close proximity to its existing holdings. With respect to its existing properties the Company met each of its maturing option commitments and finalized the surrender of three optioned properties that were determined to have limited prospects for discovering an economically viable resource. While the Company is continuously on the lookout for additional properties it maintains that the properties currently in its care and control represent the best prospects that it has had in its short history for making a significant discovery.

The pursuit of such a discovery requires careful planning of future exploration activities and this activity is also a typical element of the work the Company conducts during the third fiscal quarter of each year. The Company recently announced that it will commence summer exploration on its Tower property, a property with year round access, which the Company believes to have excellent potential and to have been significantly under-explored to date. Additional programs are also being considered and/or designed for each of the Company's other properties.

Every exploration program needs be developed based upon the known and suspected geology of each property in combination with property option commitments, with requirements to keep properties in good standing with mining authorities, and with obligations associated with historical financing transactions. Aside from specific property option commitments the Company also has an obligation to spend a minimum of \$2,000,000 on exploration before December 31, 2010. This commitment arose as a consequence of the financing transaction completed December 2009. By May 31, 2010 the Company had incurred sufficient expenditures to reduce the remaining commitment to \$958,988. The Company currently anticipates making sufficient exploration expenditures, within required time frames, to not only satisfy this financing commitment but also to meet each of the commitments associated with its numerous property options.

While the mineral resource properties are the focal point of all operations, the Company also must attend to administrative matters. One such matter that was tackled during the third quarter was the adoption of a shareholder rights plan. The plan was designed to encourage the fair and equal treatment of shareholders in connection with any take-over bid for the Company's outstanding securities. While to date there has been no specific proposal to acquire control of the Company's outstanding shares management considered it prudent to ensure that it was prepared in the event that such a proposal arose. Under the plan the Board of Directors will have additional time to assess the advantages and disadvantages to any particular offer and to seek out alternative proposals in the best interests of all shareholders. This plan will be in effect upon ratification by its shareholders at the next annual general meeting.

While the Company currently possesses sufficient cash resources to fund its operations, including its near-term exploration activities, it is certain that additional financing will be required to enable the Company to satisfy all of its existing and future commitments and to explore and develop its properties. Although the Company has been successful to date in raising the funds it required there is no assurance that it will be able to do so in the future. There are no formal plans in place at this time to initiate another financing transaction.

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**SELECTED FINANCIAL DATA**

	For the fiscal years ended:			
	<u>Aug. 09</u>	<u>Aug. 08</u>	<u>Aug. 07</u>	
Interest income	27,921	27,756	42,907	
Net income (loss) from operations	(866,654)	(560,029)	(817,877)	
Per share	(0.03)	(0.02)	(0.06)	
Net income (loss) for the period	(776,854)	322,637	(817,877)	
Per share	(0.03)	0.01	(0.06)	
Mineral resource properties	8,429,401	7,093,292	1,374,661	
Total assets	9,454,402	10,383,078	2,926,908	
Total liabilities	1,798,445	2,117,672	574,625	
	For the three month periods ended:			
	<u>May 10</u>	<u>Feb. 10</u>	<u>Nov. 09</u>	<u>Aug. 09</u>
Interest income	2,439	5	343	408
Net income (loss) from operations	(179,180)	(1,317,273)	(162,947)	(262,589)
Per share	(0.00)	(0.03)	(0.01)	(0.01)
Net income (loss) for the period	(158,216)	(1,051,507)	(154,131)	(289,299)
Per share	(0.00)	(0.02)	(0.01)	(0.01)
Mineral resource properties	9,561,610	8,926,338	9,731,313	8,429,401
Total assets	11,458,212	11,797,571	10,152,784	9,454,402
Total liabilities	2,219,585	2,526,842	2,111,406	1,798,445
	<u>May 09</u>	<u>Feb. 09</u>	<u>Nov. 08</u>	<u>Aug. 08</u>
Interest income	4,336	10,653	12,524	19,900
Net income (loss) from operations	(207,359)	(337,957)	(58,749)	(56,484)
Per share	(0.01)	(0.01)	(0.00)	(0.00)
Net income (loss) for the period	(254,092)	(223,606)	(9,857)	826,182
Per share	(0.01)	(0.01)	(0.00)	0.03
Mineral resource properties	8,366,704	7,953,480	7,712,891	7,093,292
Total assets	9,518,606	9,843,645	10,122,662	10,383,078
Total liabilities	1,734,755	1,805,702	1,861,113	2,117,672

The Company reported no long-term financial liabilities or dividends during the periods noted above.

**RESULTS OF OPERATIONS**

The Company continues to work exclusively on the acquisition and exploration of mineral resource properties and has no source of operating revenues. Despite management's continuous effort to control expenses, the absence of operating revenues results in the recognition of operating losses each fiscal period. For the three month period ended May 31, 2010 the Company reported a net loss of \$158,216 while the loss for the nine month period amounted to \$1,363,854. The reported losses for the comparable periods ended May 31, 2009 were \$254,092 and \$487,555 respectively. The magnitude of the periodic losses reported is a bi-product of the exploration and financing activities undertaken and they will continue to fluctuate.

A primary component of each of the loss figures noted above is the value of the cumulative exploration expenditures conducted on resource properties for which the Company has determined that further exploration is not warranted. These expenditures are charged to income whenever such an assessment is made, whether the property is immediately forfeited or not. During the 2009 periods the Company opted to relinquish certain mineral exploration licenses it held rather than incur additional minimum exploration requirements. This decision resulted in the recognition of \$148,968 in costs during the third quarter and \$406,060 on a year to date basis. During 2010 a similar decision was made with respect to three properties the Company held under option and resulted in a charge of \$31,042 during the third quarter and \$1,218,276 for the nine month period. The nature of mineral exploration makes it virtually certain that additional charges of this nature will arise in the future however their timing and magnitude cannot be predicted.

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### **RESULTS OF OPERATIONS – (continued)**

The 2010 loss figures also include charges for stock option compensation. This represents the theoretical value attributed to the stock options that the Company granted during the period. The exercise price associated with every stock option is equal to or greater than the market price of the Company's common shares at the time of grant meaning that they have no practical value at their inception. Notwithstanding this a value is ascribed to the options based upon a statistical assessment of the volatility of the share price, the prevailing interest rates at the time of grant, the number of options granted and the period of time that the holder has to exercise the options. The options granted during the recently concluded quarter were valued at \$49,019 thereby bringing the total compensation expense for the nine month period to \$88,671. There were no options granted during the nine month period ended May 31, 2009 and accordingly there was no compensation expense reported during that period. Stock options are granted at the discretion of the Board of Directors, in accordance with the terms of the Company's stock option plan, and accordingly compensation charges should be anticipated to arise from time to time.

During the first quarter of the 2010 fiscal year the Company relocated its corporate office from Sudbury Ontario to Toronto Ontario. The move resulted in the abandonment of the leasehold improvements that the Company had implemented in Sudbury as well as the disposal of certain property, plant and equipment that were not required at the new location. The carrying value of the assets disposed or abandoned exceeded the proceeds realized by \$33,564 and this amount is included in the net loss for the nine month period ended May 31, 2010. While the disposal and replacement of assets is a potentially recurring aspect of any entities operations it is not anticipated that a loss of this nature will recur in the foreseeable future.

In addition to the amounts described above the Company has reported aggregate expenses of \$101,558 for the three month period ended May 31, 2010 and \$321,676 for the nine months then ended. Similar expenses for the same periods one year earlier were \$62,727 and \$225,518 respectively. While it should be clear from these figures that, generally speaking, the level of administrative activity was higher in 2010 than 2009 a more comprehensive review, which follows, is necessary to understand the change

Consulting fees, which are primarily charges levied by the Company's management, have risen from \$33,608 at May 2009, including \$4,651 that arose in the third quarter, to \$73,818 at May 2010 with quarterly charges of \$32,410. As any Company grows and matures administrative demands escalate and as these costs suggest we are no exception. In 2009 the Company retained three administrative consultants each of who were required infrequently. In 2010 the Company is now receiving services from four additional consultants and the overall service volume has increased. The Company continues to benefit from the fact that consultants are only compensated for services that are rendered on an as needed basis and that it has access to well qualified consultants. This expense will continue to fluctuate from period to period according to demand but it would be reasonable to anticipate that 2010 is more indicative of future costs than is 2009.

Professional fees, comprised primarily of fees for legal and audit services, are also higher during 2010 than they were in 2009. The expense for the current quarter amounted to \$23,065 or more than twice the 2009 total of \$10,201. The May 2010 nine-month figure of \$69,084 is also more than the \$49,901 incurred in 2009. While it would be easy to conclude that, once again, service levels are greater that simply is not the case. For example the audit fee component was actually greater in 2009 than it is in 2010 because the Company required a review of its quarterly reports during 2009. This was in preparation for a potential financing transaction that ultimately did not occur. The Company was also utilizing legal services in connection with this proposed financing but had deferred the associated costs pending the close of the transaction. If it had been known at May 2009 that this transaction would not proceed then reported legal fees would have increased by \$34,879. These deferred fees were recognized during the following fiscal quarter when the transaction was abandoned.

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### RESULTS OF OPERATIONS – (continued)

Filing fees were higher for the third consecutive quarter. Current period costs of \$12,537 are \$4,314 greater than 2009 levels while the nine month total of \$43,555 reflects an increase of \$25,149. The cost increases can be traced to higher charges from the Company's transfer agent, higher costs to disseminate information to shareholders and prospective shareholders, and higher regulatory fees. Each of these costs are transaction based and therefore will fluctuate from period to period in accordance with the Company's activities.

Travel and accommodation costs have also risen in 2010 reflecting increased media relations efforts which have more than offset the decline that was anticipated to arise, and did arise, as a result of the relocation of the corporate office. The current period cost of \$12,455 is 36% higher than 2009 levels while the nine-month total of \$23,338 reflects a 21% increase. Media relations efforts were made more necessary by the general economic decline which made markets weaker and was impactful upon financing efforts. It is likely that the markets will remain fickle and the need for media relations will continue for the next few periods.

General and administrative expenses for the nine month period amounted to \$49,308 which is significantly higher than the 2009 expense of \$22,663. Generally speaking these expenses have been on the decline with no identifiable variances of note. Included in the 2010 expense however is a charge of \$32,325 that the Company incurred in relation to a flow through financing that was completed in April of 2008. This is a charge levied by Canada Revenue Agency based upon how long it takes to utilize all of the proceeds of a flow through financing. It should be emphasized that this is not a penalty and that the Company abided by all of the rules associated with this type of financing.

No other expenses exceed 5% of total expenses for any period and are within management's expectations so they have not been elaborated upon. It can be noted however that insurance expense, occupancy costs and amortization have each declined as anticipated.

### MINERAL RESOURCE PROPERTIES

To May 31, 2010 the Company has acquired, and made expenditures on, mineral resource properties as follows:

	Ontario Shihan Property	Manitoba VMS Properties	Manitoba Gold Properties	All Properties
Acquisition costs	\$ 236,900	\$ 736,949	\$ 123,322	\$ 1,097,171
Exploration costs	1,109,935	9,443,056	30,422	10,583,413
Government grant	-	(494,639)	-	(494,639)
Properties abandoned or written down	-	(1,624,335)	-	(1,624,335)
Total costs to date	<u>\$ 1,346,835</u>	<u>\$ 8,061,031</u>	<u>\$ 153,744</u>	<u>\$ 9,561,610</u>

The Manitoba VMS Properties can be further subdivided as follows:

	HudBay Properties	Jackfish Property	Tower Property	Other Properties	Manitoba Properties
Acquisition costs	\$ 204,807	\$ 70,588	\$ 332,696	\$ 128,858	\$ 736,949
Exploration costs	7,088,915	689,330	38,505	1,626,306	9,443,056
Government grants	(346,898)	(21,968)	-	(125,773)	(494,639)
Properties abandoned	<u>(1,218,276)</u>	<u>-</u>	<u>-</u>	<u>(406,059)</u>	<u>(1,624,335)</u>
Total costs to date	<u>\$ 5,728,548</u>	<u>\$ 737,950</u>	<u>\$ 371,201</u>	<u>\$ 1,223,332</u>	<u>\$ 8,061,031</u>

These amounts, and any future costs, will be deferred and reported as an asset of the Company until such time that the properties are brought to commercial production, sold, disproved or abandoned at which time an appropriate amount will be charged against income.

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### **MINERAL RESOURCE PROPERTIES – (continued)**

The anniversary date for the option agreement on the seven HudBay properties occurred on March 22, 2010. At that time the option payments came due and a new threshold for minimum exploration expenditures became effective. Immediately prior to the anniversary date the Company made the required payments for four of the option agreements and advised the property owners that it was surrendering its rights under the other three. This decision to surrender these properties reflects management's assessment of the results of exploration completed on these properties in relation to the expenditure and option payment commitments that would have ensued. The Company had previously assessed the likelihood of recovery of the amounts expended on these three properties as doubtful and recorded impairment losses aggregating \$1,218,276 as at May 31, 2010.

The HudBay Properties are now comprised of four individual properties, each of which is governed by its own option agreement. The acquisition costs noted above include the option payments made to date plus the cost of staking claims within the areas of influence of these properties.

The Company is currently evaluating its opportunities relative to the Shihan VMS property in which it holds a 100% interest, subject to a 2% net smelter returns royalty.

As at May 31, 2010, and as at the date of this document, each of the Company's resource property options, claims and licenses are in good standing.

### **LIQUIDITY**

During the fiscal quarter ended May 31, 2010 the Company did not engage in any new financing transactions nor are any expected to arise prior to the end of the fiscal year.

During the preceding quarter the Company completed a private placement financing whereby it issued 8,000,000 flow-through units and 5,000,000 working capital units and raised gross proceeds of \$3,000,000. Each flow-through unit was comprised of one common share and one-half share purchase warrant while each working capital unit was comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.40 until June 18, 2011. The Company paid finders' fees in the amount of \$170,415 plus 1,031,500 compensation warrants. Each compensation warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.20 until April 19, 2010.

Since the Company currently has no source of revenues or other means of generating cash from operations it will remain reliant on its ability to raise financing, either through private or public sources, in order to satisfy its obligations as they become due. Although the Company has been successful to date in obtaining the financing that it has required there is no assurance that it will be successful in completing future financing transactions which are expected to be required in order to satisfy the Company's exploration and operating commitments.

### **CAPITAL RESOURCES**

The Company has not entered into any commitments to acquire equipment or any specific services. It does however, have exploration expenditure and option payment commitments, as described in the following section, which must be satisfied in order to maintain and secure its interests in the mineral resource properties that are subject to property option agreements. It is certain that the Company will require additional financing in order to meet these commitments.

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**OFF-BALANCE SHEET ARRANGEMENTS**

In March 2007 the Company entered into seven option agreements whereby it will acquire a 100% working interest, subject to a 2% Net Smelter Returns Royalty, in seven Snow Lake properties in Manitoba. Prior to the date of this document the Company surrendered its rights under three of these option agreements. In accordance with the terms of the four remaining agreements, the Company is required to make the following aggregate payments on or before the following dates:

	Cash <u>Payments</u>	Exploration <u>Expenditures</u>
March 22, 2011	\$ 230,000	\$ 2,100,000
March 22, 2012	<u>950,000</u>	<u>-</u>
	<u>\$ 1,180,000</u>	<u>\$ 2,100,000</u>

As at May 31, 2010, and as at the date of this document, the Company has satisfied all obligations that have come due in accordance with these agreements. In addition to the amounts noted above the Company has already satisfied \$800,000 in future exploration expenditure commitments representing 100% of the remaining commitment for one of the four properties.

In September 2007 the Company entered into an option agreement to acquire a 100% working interest, subject to a 3% Net Smelter Returns Royalty, in the Jackfish Nickel Property in the Snow Lake District of Manitoba. In accordance with the terms of the agreement, the Company is required to make the following payments on or before the following dates.

	Cash <u>Payments</u>	Common <u>Shares</u>
September 17, 2010	\$ 17,500	20,000
September 17, 2011	<u>45,000</u>	<u>20,000</u>
	<u>\$ 62,500</u>	<u>40,000</u>

Prior to May 31, 2010 the Company had satisfied all exploration expenditure requirements stipulated in the option agreement.

In February 2008 the Company entered into an option agreement to acquire a 70% working interest, subject to a 2% Net Smelter Returns Royalty, in the Tower VMS Property in the Thompson Nickel Belt in Manitoba. On March 1, 2010 the parties executed an amendment to the original option agreement which served to establish the following commitment dates. In accordance with the terms of the agreement, and the amendment, the Company is required to make the payments noted below.

	Cash <u>Payments</u>	Exploration <u>Expenditures</u>
March 26, 2011	\$ 30,000	\$ <sup>(1)</sup>
March 26, 2012	30,000	2,000,000
March 26, 2013	30,000	-
March 26, 2014	<u>30,000</u>	<u>2,000,000</u>
	<u>\$ 120,000</u>	<u>\$ 4,000,000</u>

<sup>(1)</sup> The Company must have completed a minimum of 2,000 metres of diamond drilling, penetrating beyond the Precambrian-Paleozoic boundary.

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**OFF-BALANCE SHEET ARRANGEMENTS – (continued)**

In November 2009 the Company entered into three option agreements whereby it will acquire a 100% working interest, subject to a 2% Net Smelter Returns Royalty, in three properties, located near Snow Lake Manitoba, that are collectively referred to as the Gold Dust property. In accordance with the terms of the agreement, the Company is required to make the following payments on or before the following dates

	<u>Cash</u> <u>Payments</u>	<u>Common</u> <u>Shares</u>	<u>Exploration</u> <u>Expenditures</u>
November 23, 2010	\$ 35,000	90,000	\$ 175,000
November 23, 2011	35,000	90,000	225,000
November 23, 2012	45,000	90,000	300,000
November 23, 2013	65,000	90,000	375,000
To November 2019 <sup>(1)</sup>	<u>120,000</u>	<u>-</u>	<u>300,000</u>
	<u>\$ 300,000</u>	<u>360,000</u>	<u>\$ 1,375,000</u>

<sup>(1)</sup> From November 2014 through November 2019 the Company is required to make cash payments of \$20,000 and the aggregate exploration expenditure requirement increases by \$50,000. Beyond November 2019 the cash payments of \$20,000 are to continue annually as long as the Company retains its interest in the property. Commencing November 2010, each annual payment of \$20,000 will represent a non-refundable advance royalty payment which can be applied as a pre-payment against the net smelter returns royalty, if any.

In March 2010 the Company entered into an option agreement to acquire a 100% interest, subject to a 2% net smelter returns royalty, in the Rail North property, located in the Snow Lake District in Manitoba. Upon closing the Company was required to issue 25,000 common shares and to make a payment of \$6,300 to keep the property in good standing until March 2011. In accordance with the terms of the agreement, the Company must maintain the property in good standing and is required to make the following payments on or before the following dates

	<u>Common</u> <u>Shares</u>
March 3, 2011	25,000
March 3, 2012	25,000
March 3, 2013	<u>25,000</u>
	<u>75,000</u>

The Company has entered into a lease agreement relative to its Toronto office facility which requires monthly payments of \$1,000 until August 1, 2011. It also has signed a lease for a facility in Manitoba which is used for the storing and cataloguing of drill core removed from its resource properties. This lease requires monthly payments of \$1,500 until December 2010 after which the Company has an option to renew for an additional three year period.

With the exception of the agreements described above, the Company has not entered into any other commitments or purchase contracts as at the date of this document.

**TRANSACTIONS WITH RELATED PARTIES**

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

Lapierre Exploration Services ("Lapierre") is a company that is owned and operated by a Director  
Geodigital Mapping Systems Inc. ("Geodigital") is a company owned and operated by a Director  
Gardiner Roberts LLP ("Gardiner") is a legal firm in which a Director of the Company is a partner.  
Public Company Services ("Public") is a company owned and operated by a Director  
Cryo-Line MDI Inc. ("MDI") is a company owned and operated by a Senior Officer

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**TRANSACTIONS WITH RELATED PARTIES – (continued)**

All transactions with related parties are in the normal course of operations, have been carried out on the same terms as those accorded to unrelated parties and have been recorded at exchange amounts established and agreed to by the related parties. As at May 31, 2010 there was \$54,925 (2009 - \$43,289) included in accounts payable and accrued liabilities as a result of these transactions:

		May 31 2010	May 31 2009
Lapierre	Exploration expenditures	\$ 142,085	\$ 132,480
Lapierre	Consulting fees and expenses	14,090	8,702
Geodigital	Exploration expenditures	141,465	140,341
Geodigital	Consulting fees and expenses	5,429	-
Geodigital	Disposal of assets <sup>(1)</sup>	7,687	-
Gardiner	Prepaid expenses	-	34,879
Gardiner	Professional fees	61,009	26,556
Gardiner	Stock issuance fees	14,414	-
Public	Consulting fees and expenses	12,500	-
MDI	Consulting fees	36,119	26,151

<sup>(1)</sup> This is the loss resulting from the sale of equipment to the related party. This sale was concluded at fair market value and only included equipment that the Company was no longer utilizing.

**CONVERTIBLE INSTRUMENTS AND OTHER SECURITIES**

The Company has the following securities issued. The amounts shown represent the actual cash proceeds or other compensation received as a result of their issuance:

	<u>Quantity</u>	<u>Amount</u>
Common shares at August 31, 2008	29,388,893	\$ 7,753,670
Shares issued under property options	<u>20,000</u>	<u>6,000</u>
Common shares at August 31, 2009	29,408,893	7,759,670
Shares issued under private placement <sup>(1)</sup>	5,000,000	500,000
Less: cash expenses associated with offering		(42,500)
Less: value attributed to agents' units		(32,975)
Less: value attributed to associated warrants		(151,869)
Shares issued under private placement <sup>(2)</sup>	13,000,000	3,000,000
Less: cash expenses associated with offering		(202,958)
Less: value attributed to compensation warrants		(152,558)
Less: value attributed to associated warrants		(602,069)
Less: tax value attributed to the renounced expenditures		(660,000)
Shares issued upon exercise of warrants	500,000	75,000
Plus: value previously attributed to the warrants		15,187
Shares issued upon exercise of agents' units <sup>(3)</sup>	53,705	5,371
Plus: value previously attributed to the agents' units		3,935
Less: value attributed to underlying warrants		(2,215)
Shares issued upon exercise of underlying warrants	53,705	8,055
Plus: value previously attributed to the underlying warrants		2,215
Shares issued to settle obligations	333,334	25,000
Shares issued under property options	<u>135,000</u>	<u>24,150</u>
Common shares at May 31, 2010 and as at the date of this document	<u>48,484,637</u>	<u>\$ 9,571,439</u>

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**CONVERTIBLE INSTRUMENTS AND OTHER SECURITIES – (continued)**

- (1) This also resulted in the issuance of 5,000,000 warrants and 450,000 agents' units.  
(2) This also resulted in the issuance of 9,000,000 warrants and 1,031,500 compensation warrants.  
(3) This also resulted in the issuance of 53,705 underlying warrants

In addition to the shares noted above the Company has issued units, warrants, employee and consultant stock options, and made commitments to issue shares under certain options on mineral resource properties. The following represents the number of common shares that have been reserved to satisfy the potential future exercise and issuance of these securities:

	<u>Number Of Common Shares</u>
Property option payment due no later than Sept. 17, 2010	20,000
Property option payment due no later than Nov. 23, 2010	90,000
Property option payment due no later than Mar. 3, 2011	25,000
Warrants exercisable at \$0.15 per share until April 9, 2011	4,500,000
Agents' units exercisable at \$0.10 per share until April 9, 2011	396,295
Underlying warrants exercisable at \$0.15 per share until April 9, 2011 <sup>(1)</sup>	396,295
Warrants exercisable at \$0.40 per share until June 18, 2011	9,000,000
Compensation warrants exercisable at \$0.20 per share until June 18, 2011	1,031,500
Property option payment due no later than Sept. 17, 2011	20,000
Property option payment due no later than Nov. 23, 2011	90,000
Property option payment due no later than Mar. 3, 2012	25,000
Warrants exercisable at \$1.50 per share until Mar. 26, 2012	1,250,000
Stock options exercisable at \$0.47 until Mar. 27, 2012 <sup>(2)</sup>	1,100,000
Stock options exercisable at \$0.70 until July 6, 2012	100,000
Property option payment due no later than Nov. 23, 2012	90,000
Property option payment due no later than Mar. 3, 2013	25,000
Property option payment due no later than Nov. 23, 2013	90,000
Stock options exercisable at \$0.15 until June 17, 2014 <sup>(2)</sup>	1,400,000
Stock options exercisable at \$0.20 until Sept. 16, 2014	50,000
Stock options exercisable at \$0.20 until Oct. 14, 2014 <sup>(2)</sup>	250,000
Stock options exercisable at \$0.28 until Mar. 10, 2015 <sup>(2)</sup>	200,000
Total common shares reserved as at May 31, 2010 and as at the date of this document	<u>20,149,090</u>
Common shares issued	48,484,637
Common shares reserved	<u>20,149,090</u>
Fully diluted number of common shares as at May 31, 2010 and as at the date of this document	<u>68,633,727</u>

(1) These underlying warrants will only be issued in the event that the agent's units are exercised.

(2) Each of these options is held by a Director or Officer of the Company.

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### CONVERTIBLE INSTRUMENTS AND OTHER SECURITIES – (continued)

The following provides additional information relative to the stock options and share purchase warrants:

<u>Description</u>	<u>Common Shares Under Option</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Outstanding August 31, 2009	2,600,000	\$0.31	June 11, 2013
Issued during period	<u>500,000</u>	\$0.23	Dec. 11, 2014
Outstanding May 31, 2010 and as at the date of this document	<u>3,100,000</u> <sup>(1)</sup>	\$0.29	Sept. 17, 2013

<sup>(1)</sup> Each of these options has vested and is currently available to be exercised at the holders' discretion.

<u>Description</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Outstanding August 31, 2009	3,670,706	\$1.36	Feb. 17, 2010
Issued during period	16,335,205	\$0.39	June 17, 2011
Exercised during the period	(553,705)	\$0.15	April 9, 2011
Expired during the period	<u>(3,670,706)</u>	\$1.36	Feb. 17, 2010
Outstanding May 31, 2010 and as at the date of this document	<u>15,781,500</u>	\$0.40	June 20, 2011

### CHANGES IN ACCOUNTING POLICIES

The accounting policies followed by the Company are established in accordance with Canadian GAAP and once policies are established they will not, as a matter of policy, be revised unless Canadian GAAP changes.

#### 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:

- Identification of differences in Canadian GAAP and IFRS accounting policies and choices and their impacts on the Corporation's financial statements.
- Selection of the Corporation's continuing IFRS policies.
- Changes in note disclosures.
- Information technology and data system requirements.
- Disclosure controls and procedures, including investor relations and external communications plans related to the IFRS conversion.
- Identification of impacts of IFRS conversion on Internal Controls over Financial Reporting.
- Financial reporting expertise requirements, including training of personnel.
- 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.

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### **FINANCIAL AND OTHER 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 periods 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.

#### **RISK FACTORS**

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 period.

##### 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.

In addition to the financial risks noted above there are many additional risks that could affect the Company's business prospects. They include, but are not limited to, general economic risk, exploration risk, financing risk, fluctuating prices, competition in the marketplace, environmental regulations, government regulations, and title matters.

##### General economic risk:

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to us, or to our industry, may adversely affect us, over time, in ways that are hard to predict or defend against. Reduction in credit, combined with reduced economic activity and the fluctuations in domestic and international currency rates, may adversely affect businesses and industries that purchase commodities, thereby affecting mineral prices in more significant and unpredictable ways than the normal risks associated with mineral prices. Also, these same economic conditions may adversely affect the businesses and industries that we engage in connection with our exploration activities. As a result, the availability of these services may be reduced, the cost of obtaining them may rise, and the terms on which they are provided may be altered. Furthermore, the adverse effects on the capital markets may generally make the raising of capital by equity or debt financing much more difficult and the Company is dependent upon the capital markets to raise financing. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on our business, operating results, and financial condition.

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### **RISK FACTORS (Continued)**

#### Exploration risk:

Mineral exploration and development involve a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The properties, in which the Company has an interest or the right to acquire an interest, are in the early exploration stage and are without either resources or reserves. The Company's exploration programs are an exploratory search for mineral deposits and development will only follow upon obtaining satisfactory results. A very low percentage of exploration projects ultimately evolve into producing mines. There is no assurance that the Company's future exploration and development activities will result in the discovery of any commercially viable mineral deposits or that the Company will possess sufficient resources to develop these deposits if they are discovered. The commercial viability of a mineral deposit depends on a number of factors which include, but are not limited to, location, size, grade, and geometry of the deposit, availability of experienced labourers, proximity to existing infrastructure, mineral prices and government regulations, including environmental restrictions. Most of these factors are beyond the control of the Company.

#### Financing risk:

The exploration and development of the Company's properties, and the growth of the Company, will require substantial additional financing. The Company's properties are each in an early stage of exploration and as a result are without resources or reserves and the Company has no source of operating cash flow. Failure to obtain sufficient financing could result in a delay or indefinite postponement of further exploration on any or all of the Company's properties, the loss of a property interest, or the Company's ability to continue as a going concern. Although the Company has been successful in the past in financing its activities through the sale of equity securities, it has no assurance that additional funding will be available to it when needed or that the terms of such financing will be favourable. The Company will require new capital to continue to operate its business and to continue exploration on its various properties, and there is no assurance that capital will be available when needed, if at all.

#### Fluctuating prices:

The price of gold and other metals fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, global and regional consumption patterns, the world supply of and demand for mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The effect of these factors cannot be accurately predicted. Future price declines could impact on the viability of the Company's exploration projects.

#### Competition in the marketplace:

The mining industry is intensely competitive in all phases of exploration, development and production and the Company competes with many entities possessing greater financial and technical resources. Competition in the mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine base metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. There is no assurance that even if commercial quantities of minerals are discovered, a ready market will exist for their sale. Factors beyond the control of the Company may affect the marketability of any minerals discovered. These factors include market fluctuations, the proximity and capacity of commercial markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital or issuing its investment capital. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

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### **RISK FACTORS (Continued)**

#### Environmental regulations:

All phases of the Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. Globally, environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations.

#### Government regulations:

The current and future operations of the Company, from exploration through development activities and commercial production, if any, are and will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in exploration activities and in the development and operation of mines and related facilities may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Permits are subject to the discretion of government authorities and there can be no assurance that the Company will be successful in obtaining all required permits. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the Company's business, financial condition and results of operations. Further, there can be no assurance that all permits which the Company may require for future exploration, construction of mining facilities and conduct of mining operations, if any, will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project which the Company may undertake.

#### Title matters:

The mining claims in which the Company has an interest have not been surveyed and, accordingly, the precise location of the boundaries of the claims and ownership of mineral rights on specific tracts of land comprising the claims may be in doubt. Such claims have not been converted to lease and tenure, and as a result, are subject to annual compliance with assessment work requirements. Other parties may dispute the Company's title to its mining properties. While the Company has diligently investigated title to all mineral claims and, to the best of its knowledge, title to all properties is in good standing this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers or land claims and title may be affected by undetected defects.

### **ADDITIONAL INFORMATION**

Additional information about the Company can be found at [www.sedar.com](http://www.sedar.com). Additional information is also provided in the Company's financial statements and Annual Information Form for the most recently completed financial years.

Further additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's information circular for the Company's most recent annual meeting of security holders that involved the election of directors.