

ROCKCLIFF RESOURCES INC.

FINANCIAL STATEMENTS

AUGUST 31, 2010 and 2009

Wasserman Ramsay

Chartered Accountants

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Auditors' Report

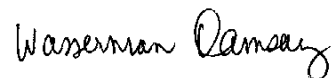
To the Shareholders of Rockcliff Resources Inc.

We have audited the balance sheets of Rockcliff Resources Inc. as at August 31, 2010 and 2009, 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, 2010 and 2009 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 21, 2010



Chartered Accountants
Licensed Public Accountants

ROCKCLIFF RESOURCES INC.

BALANCE SHEETS AUGUST 31, 2010 and 2009

	2010	2009
ASSETS		
Current:		
Cash and cash equivalents	\$ 601,238	\$ -
Restricted cash and cash equivalents (Note 4)	806,973	800,222
GST and HST receivable	51,289	10,077
Prepaid expenses	<u>124,073</u>	<u>72,619</u>
	1,583,573	882,918
Property, plant and equipment (Note 5)	76,661	142,083
Mineral resource properties (Note 6)	<u>8,380,889</u>	<u>8,429,401</u>
	<u>\$ 10,041,123</u>	<u>\$ 9,454,402</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 122,505	\$ 96,546
Current portion of property option commitment (Note 10 e)	<u>31,200</u>	<u>-</u>
	153,705	96,546
Property option commitment (Note 10 e)	31,200	-
Future income taxes (Note 9)	<u>1,738,880</u>	<u>1,701,899</u>
	<u>1,923,785</u>	<u>1,798,445</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	10,619,273	8,352,240
Contributed surplus (Note 7)	1,311,668	624,921
Deficit	<u>(3,813,603)</u>	<u>(1,321,204)</u>
	<u>8,117,338</u>	<u>7,655,957</u>
	<u>\$ 10,041,123</u>	<u>\$ 9,454,402</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, 2010 AND 2009

	2010	2009
Interest income	<u>\$ 5,058</u>	<u>\$ 27,921</u>
Expenses:		
Advertising and promotion	8,528	4,735
Amortization	30,135	52,326
Consulting fees <i>(Note 8)</i>	116,476	44,600
Disposal of property, plant and equipment <i>(Note 8)</i>	33,564	-
Filing and regulatory fees	51,560	22,575
General and administrative <i>(Note 8)</i>	52,514	30,986
Insurance	22,712	29,802
Occupancy costs	14,626	19,814
Professional fees <i>(Note 8)</i>	91,300	102,466
Stock option compensation <i>(Note 7)</i>	94,177	161,405
Travel and accommodation	32,296	19,807
Valuation allowances on mineral resource properties <i>(Note 6)</i>	<u>2,572,588</u>	<u>406,059</u>
	<u>3,120,476</u>	<u>894,575</u>
Loss before provision for income taxes	(3,115,418)	(866,654)
Provision for income taxes – future recovery	<u>(623,019)</u>	<u>(89,800)</u>
Net loss and comprehensive loss for the year	(2,492,399)	(776,854)
Deficit, beginning of year	<u>(1,321,204)</u>	<u>(544,350)</u>
Deficit, end of year	<u>\$ (3,813,603)</u>	<u>\$ (1,321,204)</u>
Net loss per share - basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Weighted average number of shares - basic and diluted	<u>43,281,001</u>	<u>29,408,455</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, 2010 AND 2009

	2010	2009
Cash was provided by (used in) the following activities:		
Operating:		
Net loss for the year	\$ (2,492,399)	\$ (776,854)
Items not involving cash:		
Amortization	30,135	52,326
Disposal of property, plant and equipment	33,564	-
Stock options compensation	94,177	161,405
Valuation allowances on mineral resource properties	2,572,588	406,059
Future income tax (recovery) provision	(623,019)	(89,800)
Changes in non-cash working capital items		
GST and HST receivable	(41,212)	43,070
Prepaid expenses	(51,454)	147,014
Accounts payable and accrued liabilities	<u>50,959</u>	<u>(229,427)</u>
	<u>(426,661)</u>	<u>(286,207)</u>
Financing:		
Issuance of common shares	<u>3,344,718</u>	<u>-</u>
Investing:		
Proceeds from sale of property, plant and equipment	3,350	-
Acquisition of property, plant and equipment	(1,627)	(3,128)
Additions to restricted cash and cash equivalents	(2,000,000)	-
Expenditures from restricted cash and cash equivalents	1,993,249	2,033,067
Acquisition of mineral resource properties	(202,823)	(40,661)
Deferred exploration expenditures	<u>(2,108,968)</u>	<u>(1,703,071)</u>
	<u>(2,316,819)</u>	<u>286,207</u>
Increase in cash and cash equivalents	601,238	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 601,238</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

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:

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.

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
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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

2 Summary of significant accounting policies (continued):

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 and government assistance, 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.

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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

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2 Summary of significant accounting policies (continued):

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 the changeover will occur on September 1, 2011 and reporting under the new standards will commence with the fiscal quarter ended November 30, 2011. The Company has completed an initial review of key areas, is conducting a comprehensive review of each of its accounting policies, and is developing a plan for the implementation of IFRS. It is expected that this plan will take into consideration at least the following:

- (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 will make changes to processes and systems in time to ensure that all transactions arising during the fiscal year ending August 31, 2011 may be restated in accordance with IFRS such 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, GST & HST 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.

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.

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3 Financial instruments (continued):

Credit risk:

The Company reports amounts that are recoverable on account of goods and services taxes and harmonized sales taxes. These amounts are subject to verification through audits that may be conducted by Canada Revenue Agency.

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 December 2009 and April 2008 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.

	2010	2009
Balance at beginning of year	\$ 800,222	\$ 2,825,926
Gross proceeds derived from the issuance of flow through shares	2,000,000	-
Qualified exploration expenditures paid during year	(2,404,161)	(2,110,745)
Qualified exploration expenditures paid from general funds	<u>410,912</u>	<u>85,041</u>
Funds retained for future payments	\$ 806,973	\$ 800,222
Balance of future payments to be made from these funds	<u>(806,973)</u>	<u>(1,211,134)</u>
Deficiency of funds	<u>\$ -</u>	<u>\$ (410,912)</u>

The former deficiency was funded within the required timeframe.

5 Property, plant and equipment:

	Cost	Accumulated Amortization	Net Book Value
2010			
Office furniture and equipment	\$ 50,007	\$ 33,734	\$ 16,273
Exploration equipment	104,613	49,320	55,293
Computer equipment	<u>20,533</u>	<u>15,438</u>	<u>5,095</u>
	<u>\$ 175,153</u>	<u>\$ 98,492</u>	<u>\$ 76,661</u>
2009			
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>-</u>
	<u>\$ 294,923</u>	<u>\$ 152,840</u>	<u>\$ 142,083</u>

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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.

	2010	2009
Opening balance	\$ 8,429,401	\$ 7,093,292
Valuation allowances on mineral resource properties ⁽¹⁾	(2,572,588)	(406,059)
Exploration expenditures	2,397,968	1,859,658
Government grants received	(289,000)	(164,151)
Acquisition of mining properties	<u>415,108</u>	<u>46,661</u>
Closing balance	<u>\$ 8,380,889</u>	<u>\$ 8,429,401</u>
Represented by:		
Staked property (Shihan), Sault Saint Marie Mining Division, Ontario (a)	\$ -	\$ 1,343,555
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (b)	5,758,806	3,942,914
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (b)	-	1,160,721
Optioned property (Jackfish), Snow Lake Mining District, Manitoba (c)	739,336	692,655
Optioned property (Tower), Thompson Nickel Belt, Manitoba (d)	428,706	207,382
Staked properties, Snow Lake Mining District, Manitoba (e)	1,213,409	1,082,174
Optioned property (Gold Dust), Snow Lake Mining District, Manitoba (f)	225,031	-
Optioned property (Rail North), Snow Lake Mining District, Manitoba (g)	<u>15,601</u>	<u>-</u>
	<u>\$ 8,380,889</u>	<u>\$ 8,429,401</u>

⁽¹⁾ The valuation allowances claimed are comprised of the following amounts:

Staked property (Shihan), Sault Saint Marie Mining Division, Ontario (a)	\$ 1,354,312	\$ -
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (b)	1,218,276	-
Properties held under mineral exploration licenses	<u>-</u>	<u>406,059</u>
	<u>\$ 2,572,588</u>	<u>\$ 406,059</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 the Sault Saint Marie Mining Division in Ontario. Although the Company retains its interest in this property, and is conducting additional exploration, a valuation allowance equal to the carrying value of the property has been claimed, in accordance with GAAP, on the basis that no significant exploration has been conducted over the three most recent fiscal years.

(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. During the year the Company recorded a full valuation allowance on three of these properties, based upon exploration results, and then surrendered the corresponding option rights prior to the next option payment being due. In accordance with the four continuing agreements, the Company has made cash option payments of \$115,000 to date and must make additional payments of \$230,000 on or before March 22, 2011 and \$875,000 on or before March 22, 2012, in order to exercise its options. The Company has fully satisfied the exploration requirement for one of these properties but is required to spend a minimum of \$1,328,402, in aggregate, no later than March 22, 2011 to satisfy the requirements of the other three properties.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

6 Mineral resource properties (continued):

(b) (continued)

Should the Company earn its 100% interest in any of these properties, the optionor may reacquire a 55% interest therein by paying Rockcliff two times the cash option payments made by Rockcliff and by incurring exploration expenditures that are twice 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 \$37,500 cash and issued 60,000 common shares. Subsequent to the balance sheet date The Company made payments of \$17,500 and 20,000 common shares and must also make payments of \$45,000 and 20,000 common shares on or before September 17, 2011 in order to exercise its option. The Company was also required to spend a minimum of \$350,000 exploring the property which has been satisfied. The Company 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. The Company has paid \$30,000 in cash, issued 1,250,000 share purchase warrants which subsequently expired, and issued an additional 1,250,000 warrants each of which entitles the holder to acquire one common share of the Company for \$1.50 any time prior to March 26, 2012. To retain its option rights the Company must make four annual cash payments of \$30,000 commencing March 26, 2011. The Company will acquire a 50% interest in the property provided it completes a minimum of 2,000 metres of diamond drilling, penetrating beyond the Precambrian-Paleozoic boundary, no later than March 26, 2011 and has incurred a minimum of \$2,000,000 in exploration expenditures no later than March 26, 2012. Provided the Company acquires the 50% interest it may then acquire a further 20% interest provided it incurs an additional \$2,000,000 in exploration expenditures no later than March 26, 2014.

(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 subject to minimum work requirements specified by the province of Manitoba in order to renew the claims in the future.

(f) In November 2009 the Company entered into 3 separate option agreements to acquire 3 gold properties located near Snow Lake Manitoba, which is collectively referred to as the Gold Dust Property. The closing date for these agreements was December 29, 2009 and their terms 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 has issued 40,000 common shares to the vendor and is required to make the following payments: (i) \$15,000 cash and 40,000 common shares on or before December 29, 2010; (ii) \$15,000 cash and 40,000 common shares on or before December 29, 2011; (iii) \$25,000 cash and 40,000 common shares on or before December 29, 2012; and (iv) \$45,000 cash and 40,000 common shares on or before December 29, 2013. 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 December 29, 2010, an additional \$100,000 on or before December 29, 2011, an additional \$150,000 on or before December 29, 2012, and an additional \$175,000 on or before December 29, 2013. 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.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

6 Mineral resource properties (continued):

(f) (continued)

(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 and is 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 December 29 of each year commencing with 2010. 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.

(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. The Company has issued 50,000 common shares to the vendor and is required to make payments of 50,000 common shares on or before December 29 each year until 2013. The Company is also required to spend a minimum of \$375,000 exploring the property including \$50,000 by December 29, 2010, an additional \$75,000 on or before December 29, 2011, an additional \$100,000 on or before December 29, 2012, and an additional \$150,000 on or before December 29, 2013. 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.

(g) 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 order to exercise its option the Company must issue 25,000 common shares on or before each of the first three anniversaries of the closing, and maintain the property in good standing. The agreement also grants the Company the right to purchase one half or 1.0% of the net smelter returns royalty for \$500,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty.

7 Share capital:

(a) Authorized

Unlimited common shares.

(b) Issued

	2010	2009
Common shares	\$ 9,573,114	\$ 7,759,670
Warrants outstanding	<u>1,046,159</u>	<u>592,570</u>
Share capital	<u>\$ 10,619,273</u>	<u>\$ 8,352,240</u>

Common shares:	No of shares	Value
Balance - August 31, 2008	29,388,893	\$ 7,753,670
Shares issued for mining properties or rights	<u>20,000</u>	<u>6,000</u>
Balance – August 31, 2009	29,408,893	7,759,670
Common shares issued through private placement ⁽¹⁾	5,000,000	272,656
Flow through shares issued through private placement ⁽²⁾	8,000,000	948,809
Common shares issued through private placement ⁽³⁾	5,000,000	434,356
Shares issued upon exercise of warrants	500,000	90,187
Shares issued upon exercise of agents' units ⁽⁴⁾	<u>63,705</u>	<u>8,016</u>
Balance forward	<u>47,972,598</u>	<u>9,513,694</u>

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7 Share capital (continued):

(b) Issued (continued)

	No of shares	Value
Balance forward	47,972,598	9,513,694
Shares issued upon exercise of underlying warrants	53,705	10,270
Shares issued to settle obligations	333,334	25,000
Shares issued for mining properties or rights	<u>135,000</u>	<u>24,150</u>
Balance – August 31, 2010	<u>48,494,637</u>	<u>\$ 9,573,114</u>

(1) Reported net of offering costs of \$75,475 and warrants valued at \$151,869.

(2) Reported net of warrants valued at \$391,191 and the \$660,000 estimated tax value of the exploration expenditures to be renounced by the Company in accordance with the terms of these shares.

(3) Reported net of offering costs of \$354,766 and warrants valued at \$210,878.

(4) Reported net of underlying warrants valued at \$3,024.

Warrants not yet exercised:

Balance - August 31, 2008	\$ 647,765
Value added to contributed surplus upon expiry of warrants	<u>(55,195)</u>
Balance – August 31, 2009	\$ 592,570
Value added to contributed surplus upon expiry of warrants	(592,570)
Value attributed to warrants issued through private placement	151,869
Value attributed to warrants exercised	(15,187)
Value attributed to agents' units issued through private placement	32,975
Value attributed to agents' units exercised	(4,668)
Value attributed to warrants issued through private placement	602,069
Value attributed to compensation warrants issued through private placement	152,558
Value attributed to warrants issued for mineral resource properties	125,735
Value attributed to underlying warrants issued upon exercise of agents' units	3,024
Value attributed to underlying warrants exercised	<u>(2,216)</u>
Balance – August 31, 2010	<u>\$ 1,046,159</u>

(c) Details of options outstanding are as follows:

	Common Shares <u>Under Option</u>	Exercise Price	Expiry Date
	100,000	\$ 0.15	Aug. 12, 2011
	1,100,000 ⁽¹⁾	\$ 0.47	Mar. 27, 2012
	1,400,000 ⁽¹⁾	\$ 0.15	June 17, 2014
	50,000	\$ 0.20	Sept 16, 2014
	250,000 ⁽¹⁾	\$ 0.20	Oct 14, 2014
	<u>200,000</u> ⁽¹⁾	\$ 0.28	Mar. 10, 2015
	<u>3,100,000</u> ⁽²⁾		

	Common Shares <u>Under Option</u>	Weighted Average Exercise Price	Weighted Average Expiry Date
Beginning of year	2,600,000	\$ 0.31	June 11, 2013
Expired during year	(100,000)	\$ 0.70	July 6, 2010
Issued during year	<u>600,000</u>	\$ 0.22	May 23, 2014
End of year	<u>3,100,000</u>	\$ 0.28	Aug. 28, 2013

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

(2) Each of these options has vested and is currently available to be exercised at the holders' discretion.

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

7. Share capital (continued):

(d) Details of warrants outstanding are as follows:

	<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	4,510,000	\$ 0.15	April 9, 2011
	1,031,500	\$ 0.20	June 18, 2011
	9,000,000	\$ 0.40	June 18, 2011
	<u>1,250,000</u>	<u>\$ 1.50</u>	<u>Mar. 26, 2012</u>
	<u>15,791,500</u>		
<u>Description</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Beginning of year	3,670,706	\$ 1.36	February 18, 2010
Issued during year	16,345,205	\$ 0.31	May 25, 2011
Exercised during year	(553,705)	\$ 0.15	April 9, 2011
Expired during year	<u>(3,670,706)</u>	<u>\$ 1.36</u>	<u>February 18, 2010</u>
End of year	<u>15,791,500</u>	<u>\$ 0.32</u>	<u>May 29, 2011</u>

In addition to the warrants noted above the Company has issued 386,295 agents' units which may be exercised at \$0.10 per unit until April 9, 2011. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.15 per share until April 9, 2011.

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

	2010	2009
Dividend yield	Nil	Nil
Risk free interest rate	0.77% to 1.40%	None issued
Expected stock volatility	128.15% to 139.50%	None issued
Expected life	0.64 to 2.07 years	None issued

(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:

	2010	2009
Dividend yield	Nil	Nil
Risk free interest rate	1.21% to 2.80%	2.60%
Expected stock volatility	94.44% to 139.63%	142.00%
Expected life	1 to 5 years	5 years

(f) Contributed surplus:

	2010	2009
Opening balance	\$ 624,921	\$ 408,321
Expiry of warrants	592,570	55,195
Compensation expense related to stock options	<u>94,177</u>	<u>161,405</u>
Closing balance	<u>\$ 1,311,668</u>	<u>\$ 624,921</u>

ROCKCLIFF RESOURCES INC.

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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 an individual who was a Director and officer of the Company until September 14, 2010
 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.

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 August 31, 2010 a total of \$70,039 (2009 - \$22,756) is included in accounts payable and accrued liabilities as a result of these transactions:

		2010	2009
Lapierre	Exploration expenditures	\$ 180,097	\$ 188,909
Lapierre	Consulting fees and expenses	28,036	8,702
Geodigital	Exploration expenditures	182,563	196,526
Geodigital	Consulting fees and expenses	5,919	-
Geodigital	Disposal of assets ⁽¹⁾	7,687	-
Gardiner	Professional fees	73,508	71,620
Gardiner	Stock issuance fees	14,414	-
Public	Consulting fees and expenses	20,000	-
MDI	Consulting fees and expenses	56,638	35,398

⁽¹⁾ 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.

9 Income taxes:

Current income taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company’s effective tax rate of 31.99% (2009 – 33.17%) is as follows:

	2010	2009
Net loss for the year	<u>\$ (3,115,418)</u>	<u>\$ (866,654)</u>
Income taxes at statutory rates	\$ (996,763)	\$ (287,443)
Expenses not deductible for income tax purposes	30,896	53,826
Accounting amortization in excess of capital cost allowance claimed	2,781	17,355
Valuation allowance on mineral resource properties	<u>823,087</u>	<u>134,678</u>
	(139,999)	(81,584)
Non-capital losses reported	<u>139,999</u>	<u>81,584</u>
Current income tax expense	<u>\$ -</u>	<u>\$ -</u>

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

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9 Income taxes (continued):

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	245,981
2030	<u>437,569</u>
	<u>\$ 1,591,962</u>

In addition, the Company has approximately \$1,528,563 in Canadian Exploration Expenditures ("CEE") and \$1,107,517 in Canadian Development Expenditures which may be applied against certain profits realized on its mining properties. The potential benefit of these tax pools has not been recognized in these financial statements.

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

Future income taxes:

	2010	2009
Opening balance	\$ 1,701,899	\$ 1,791,699
Exploration expenditures renounced during year	660,000	-
Previously renounced expenditures charged to income in the year	(511,157)	-
Exploration expenditures deferred for income tax purposes	(15,197)	(107,980)
Future income taxes (recovered) due to change in tax rates	<u>(96,665)</u>	<u>18,180</u>
Closing balance	<u>\$ 1,738,880</u>	<u>\$ 1,701,899</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:

	2010	2009
Non-capital losses	\$ 397,991	\$ 288,598
Undepreciated capital cost	40,383	38,210
Cumulative exploration and development expenditures	659,020	643,823
Renounced cumulative exploration expenditures	(2,397,900)	(2,345,722)
Valuation allowance	<u>(438,374)</u>	<u>(326,808)</u>
	<u>\$ (1,738,880)</u>	<u>\$ (1,701,899)</u>

10 Commitments:

(a) The Company has signed a lease for its administrative office in Toronto, Ontario which expires September 30, 2011 and requires monthly comprehensive lease payments of \$1,000. Rent to December 31, 2010 has been prepaid.

The Company has signed a lease for its field office and accommodation in Snow Lake, Manitoba which expires July 31, 2011 and requires monthly rental payments of \$800 plus applicable utilities.

The Company has signed a lease for a facility used for cataloguing and storing drill core in Snow Lake Manitoba which expires December 31, 2010 and requires monthly rental payments of \$1,500 plus applicable utilities. The Company has an option to renew this lease for an additional three year period.

The minimum payments required in accordance with these leases are as follows:

2011	\$ 27,600
2012	<u>1,000</u>
	<u>\$ 28,600</u>

ROCKCLIFF RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

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10. Commitments (continued):

- (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 2011	\$ 230,000	2,100,000
March 2012	<u>950,000</u>	<u>-</u>
	<u>\$ 1,180,000</u>	<u>\$ 2,100,000</u>

The Company has incurred \$5,894,425 in exploration expenditures on these properties, including \$771,598 relative to the above noted commitment, and has received government grants aggregating \$275,579. All option commitments to date, and an additional \$800,000 future exploration expenditure commitment, have already been satisfied.

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

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

The payments of cash and shares required during September 2010 were made subsequent to the balance sheet date. The Company has incurred \$690,206 in exploration expenditures, and has received government grants aggregating \$21,968. All cash payments and share issuances required to date have been made in accordance with the agreement and the exploration expenditure requirements have been fully satisfied.

- (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
March 2011	\$ 30,000	\$ -
March 2012	30,000	2,000,000
March 2013	30,000	-
March 2014	<u>30,000</u>	<u>2,000,000</u>
	<u>\$ 120,000</u>	<u>\$ 4,000,000</u>

The Company is also required to complete at least 2,000 metres of diamond drilling no later than March 2011. The Company made the initial \$30,000 cash payment and issued share purchase warrants in accordance with the agreement and with the option amendment agreement which served to define the commitment dates noted above. The Company has incurred exploration expenditures aggregating \$96,010 relative to this commitment.

- (e) The Company is committed to making the following payments (cash, shares and exploration expenditures) under the terms of the Gold Dust property option agreements as described in Note 6 (f):

	Cash Payments	Number of Shares	Exploration Expenditures
December 2010	\$ 35,000	90,000	\$ 175,000
December 2011	35,000	90,000	225,000
December 2012	45,000	90,000	300,000
December 2013	<u>65,000</u>	<u>90,000</u>	<u>375,000</u>
	<u>\$ 180,000</u>	<u>360,000</u>	<u>\$ 1,075,000</u>

ROCKCLIFF RESOURCES INC.

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10. Commitments (continued):

(e) (continued)

The Company has made cash payments of \$40,000, issued 90,000 shares and incurred exploration expenditures of \$97,717 to August 31, 2010. In addition to the amounts noted above the Company is required to continue to make annual cash payments of \$20,000 each November and to spend an additional \$300,000 in exploration expenditures with a minimum of \$50,000 each year commencing after December 2013. The cash payments represent an advance against any potential net smelter returns royalty.

The cash and share payments due December 29, 2010 and 2011 are required even if the Company has previously relinquished its option rights. Accordingly, the Company has recognized the following obligation, using the market price of its shares as of the balance sheet date, and reflected the corresponding amount as a cost to acquire the mineral resource properties:

	2010	2009
Property option commitment	\$ 62,400	\$ -
Less: current portion	<u>(31,200)</u>	<u>-</u>
	<u>\$ 31,200</u>	<u>\$ -</u>

(f) The Company is committed to maintain the property in good standing and to make the following share issuances under the terms of the Rail North property option agreement as described in Note 6 (g):

	Number of Shares
March 2011	25,000
March 2012	25,000
March 2013	<u>25,000</u>
	<u>75,000</u>

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:

	2010	2009
Share Capital	\$ 10,619,273	\$ 8,352,240
Contributed surplus	1,311,668	624,921
Deficit	<u>(3,813,603)</u>	<u>(1,321,204)</u>
Net capital under management	<u>\$ 8,117,338</u>	<u>\$ 7,655,957</u>

12 Supplemental cash flow information:

	2010	2009
Operating cash flows include:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash financing and investing activities:		
Shares issued to acquire mineral resource properties	\$ 24,150	\$ 6,000
Warrants issued to acquire mineral resource properties	125,734	-
Common shares issued in settlement of obligations	25,000	-
Property option commitment recorded	62,400	-
Canadian exploration expenditures renounced	660,000	-
Expired warrants transferred to contributed surplus	592,570	55,195

ROCKCLIFF RESOURCES INC.

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13 Subsequent events:

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

- (1) In October 2010 the Company entered into an option agreement to acquire the Black Gold property, located near Timmins, Ontario. Upon signing the Company made a payment of \$50,000 and issued 200,000 common shares. The Company can acquire a 100% interest, subject to a 3% net smelters return royalty in favour of the vendor, by making 4 annual payments, each comprised of \$50,000 and 200,000 common shares, and by incurring exploration expenditures of not less than \$50,000 per year for 4 years with aggregate expenditures of not less than \$500,000 at the end of the 4 year term. Advance royalty payments of \$50,000 per year commence after a positive feasibility study has been completed. The Company can purchase 1% of the net smelters return royalty any time for \$1,000,000 and holds a right of first refusal relative to the remaining 2%.
- (2) In December 2010 the Company completed a private placement financing whereby it issued 15,000,000 flow-through units at a price of \$0.20 each and 6,666,667 units at a price of \$0.15 each for gross proceeds of \$4,000,000. Each flow-through unit is comprised of one common share and one-half share purchase warrant while each unit is comprised of one common share and one share purchase warrant. Each full warrant will entitle the holder to acquire one common share of the Company at a price of \$0.30 for eighteen months following the closing date. The Company incurred finders' fees in the amount of \$263,540 plus 298,667 unit compensation warrants and 1,093,700 FT unit compensation warrants. Each unit compensation warrant entitles the holder to acquire one common share of the Company at a price of \$0.15 for eighteen months following the closing date and each FT unit compensation warrant entitles the holder to acquire one common share of the Company at a price of \$0.20 for eighteen months following the closing date. The financing closed in four parts ranging from December 1, 2010 to December 20, 2010.