

**ROCKCLIFF RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AUGUST 31, 2011 and 2010**

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Rockcliff Resources Inc.:

We have audited the accompanying consolidated financial statements of Rockcliff Resources Inc. which comprise the consolidated balance sheets as at August 31, 2011 and 2010, and the consolidated statements of loss and comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility


Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rockcliff Resources Inc. as at August 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Markham, Ontario  
December 23, 2011



Chartered Accountants  
Licensed Public Accountants

# ROCKCLIFF RESOURCES INC.

## CONSOLIDATED BALANCE SHEETS

AUGUST 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 1,341,809	\$ 601,238
Restricted cash and cash equivalents (Note 5)	-	806,973
GST and HST receivable	163,058	51,289
Prepaid expenses	<u>122,896</u>	<u>124,073</u>
	1,627,763	1,583,573
Property, plant and equipment (Note 6)	78,568	76,661
Mineral resource properties (Note 7)	<u>10,464,207</u>	<u>8,380,889</u>
	<u>\$ 12,170,538</u>	<u>\$ 10,041,123</u>
<b>LIABILITIES</b>		
Current:		
Accounts payable and accrued liabilities	\$ 261,301	\$ 122,505
Current portion of property option commitment (Note 11 e)	<u>30,300</u>	<u>31,200</u>
	291,601	153,075
Property option commitment (Note 11 e)	-	31,200
Future income taxes (Note 10)	<u>1,716,233</u>	<u>1,738,880</u>
	<u>2,007,834</u>	<u>1,923,785</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	13,606,396	10,619,273
Contributed surplus (Note 8)	2,252,538	1,311,668
Deficit	<u>(5,696,230)</u>	<u>(3,813,603)</u>
	<u>10,162,704</u>	<u>8,117,338</u>
	<u>\$ 12,170,538</u>	<u>\$ 10,041,123</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.

## CONSOLIDATED STATEMENT OF INCOME, COMPREHENSIVE LOSS AND DEFICIT FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
Interest income	<u>\$ 14,551</u>	<u>\$ 5,058</u>
Expenses:		
Advertising and promotion	13,074	8,528
Amortization	27,256	30,135
Consulting fees (Note 9)	137,589	116,476
Disposal of property, plant and equipment (Note 9)	408	33,564
Public company expenses	78,476	51,560
General and administrative (Note 9)	36,743	52,514
Insurance	24,806	22,712
Occupancy costs	20,000	14,626
Professional fees (Note 9)	126,134	91,300
Stock option compensation (Note 8)	227,163	94,177
Travel and accommodation	15,360	32,296
Valuation allowances on mineral resource properties (Note 7)	<u>2,142,576</u>	<u>2,572,588</u>
	<u>2,849,585</u>	<u>3,120,476</u>
Loss before provision for income taxes	(2,835,034)	(3,115,418)
Provision for income taxes – future recovery	<u>(952,407)</u>	<u>(623,019)</u>
Net loss and comprehensive loss for the year	(1,882,627)	(2,429,399)
Deficit, beginning of year	<u>(3,813,603)</u>	<u>(1,321,204)</u>
Deficit, end of year	<u>\$ (5,696,230)</u>	<u>\$ (3,813,603)</u>
Net loss per share - basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>
Weighted average number of shares - basic and diluted	<u>66,893,873</u>	<u>43,281,001</u>

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

**ROCKCLIFF RESOURCES INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

	2011	2010
<b>Cash was provided by (used in) the following activities:</b>		
<b>Operating:</b>		
Net loss for the year	\$ (1,882,627)	\$ (2,492,399)
Items not involving cash:		
Amortization	27,256	30,135
Disposal of property, plant and equipment	408	33,564
Stock options compensation	227,163	94,177
Valuation allowances on mineral resource properties	2,142,576	2,572,588
Future income tax (recovery) provision	(952,407)	(623,019)
Changes in non-cash working capital items		
GST and HST receivable	(111,769)	(41,212)
Prepaid expenses	1,177	(51,454)
Accounts payable and accrued liabilities	<u>138,796</u>	<u>50,959</u>
	<u>(409,427)</u>	<u>(426,661)</u>
<b>Financing:</b>		
Property option commitment paid	(15,000)	-
Issuance of common shares	<u>4,565,940</u>	<u>3,344,718</u>
	<u>4,550,940</u>	<u>3,344,718</u>
<b>Investing:</b>		
Proceeds from sale of property, plant and equipment	221	3,350
Acquisition of property, plant and equipment	(29,792)	(1,627)
Additions to restricted cash and cash equivalents	(3,000,000)	(2,000,000)
Expenditures from restricted cash and cash equivalents	3,806,973	1,993,249
Acquisition of mineral resource properties	(265,567)	(202,823)
Deferred exploration expenditures	<u>(3,912,777)</u>	<u>(2,108,968)</u>
	<u>(3,400,942)</u>	<u>(2,316,819)</u>
Increase in cash and cash equivalents	740,571	601,238
Cash and cash equivalents, beginning of year	<u>601,238</u>	-
Cash and cash equivalents, end of year	<u>\$ 1,341,809</u>	<u>\$ 601,238</u>

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

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 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 Basis of presentation:

On May 11, 2011 Goldpath Resources Corp., a wholly-owned subsidiary, was incorporated. Accordingly, these consolidated financial statements have been prepared using the consolidation method and include the assets and liabilities of Goldpath Resources Corp. along with all revenues and expenses arising subsequent to its date of incorporation.

### 3 Summary of significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

#### Use of Estimates:

The preparation of consolidated 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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 3 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 CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 3 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. Accordingly, the Company will begin reporting under the new standards for its fiscal year ended August 31, 2012 and the first report to be issued under IFRS will be the interim consolidated financial statements for the period ended November 30, 2011.

### 4 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.

#### **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.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

As an element of public offerings completed by the Company it 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.

	<b>2011</b>	2010
Balance at beginning of year	\$ <b>806,973</b>	\$ 800,222
Gross proceeds derived from the issuance of flow through shares	<b>3,000,000</b>	2,000,000
Qualified exploration expenditures paid during year	<b>(3,806,973)</b>	(2,404,161)
Qualified exploration expenditures paid from general funds	<u>-</u>	<u>410,912</u>
Restricted cash retained for future payments	<u><b>\$ -</b></u>	<u>\$ 806,973</u>

### 6 Property, plant and equipment:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b>2011</b>			
Office furniture and equipment	\$ 54,104	\$ 36,155	\$ 17,949
Exploration equipment	104,613	60,378	44,235
Computer equipment	23,098	17,476	5,622
<b>Computer software</b>	<u>21,525</u>	<u>10,763</u>	<u>10,762</u>
	<u><b>\$ 203,340</b></u>	<u><b>\$ 124,772</b></u>	<u><b>\$ 78,568</b></u>
<b>2010</b>			
	Cost	Accumulated Amortization	Net Book Value
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><b>\$ 175,153</b></u>	<u><b>\$ 98,492</b></u>	<u><b>\$ 76,661</b></u>

### 7 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.

	<b>2011</b>	2010
Opening balance	\$ <b>8,380,889</b>	\$ 8,429,401
Acquisition of mining properties	<b>313,117</b>	415,108
Exploration expenditures	<b>3,972,678</b>	2,397,968
Government grants received	<b>(59,901)</b>	(289,000)
Valuation allowances on mineral resource properties <sup>(1)</sup>	<u><b>(2,142,576)</b></u>	<u>(2,572,588)</u>
Closing balance	<u><b>\$ 10,464,207</b></u>	<u>\$ 8,380,889</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 7 Mineral resource properties (continued):

Represented by:

Optioned properties (HudBay), Snow Lake Mining District, Manitoba (a)	\$ 4,481,855	\$ 3,843,892
Optioned properties (HudBay), Snow Lake Mining District, Manitoba (a)	-	1,914,914
Optioned property (Jackfish), Snow Lake Mining District, Manitoba (b)	764,541	739,336
Optioned property (Tower), Thompson Nickel Belt, Manitoba (c)	1,975,439	428,706
Staked properties, Snow Lake Mining District, Manitoba (d)	2,225,566	1,213,409
Optioned property (Gold Dust), Snow Lake Mining District, Manitoba (e)	550,455	225,031
Optioned property (Dunlop Reed), Snow Lake Mining District, Manitoba (f)	42,982	15,601
Optioned property (Black Gold), Larder Lake Mining Division, Ontario (g)	229,062	-
Optioned property (Dickstone), Snow Lake Mining District, Manitoba (h)	192,795	-
Optioned property (Spruce Point), Snow Lake Mining District, Manitoba (i)	1,512	-
	<u>\$ 10,464,207</u>	<u>\$ 8,380,889</u>

<sup>(1)</sup> The valuation allowances claimed are comprised of the following amounts:

Optioned properties (HudBay), Snow Lake Mining District, Manitoba (a)	\$ 2,067,454	\$ 1,218,276
Staked property (Shihan), Sault Saint Marie Mining Division, Ontario (j)	74,384	1,354,312
Staked claims permitted to lapse (d)	738	-
	<u>\$ 2,142,576</u>	<u>\$ 2,572,588</u>

(a) 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. The Company previously surrendered its rights under three of these option agreements and recognized a valuation allowance of \$1,218,276 as a result. Two additional properties were surrendered during the period, following receipt of exploration results that confirmed the assessment that the value had been impaired. The determination of impairment resulted in the recognition of an impairment loss in the amount of \$2,067,454, including \$1,914,914 in prior period expenditures plus \$152,540 incurred in the current period, representing the full carrying value of these two properties. In accordance with the two continuing agreements, the Company has made cash option payments of \$145,000 to date and must make an additional payment of \$310,000 on or before March 22, 2012, in order to exercise its options. The Company has fully satisfied the exploration requirement for these properties.

Should the Company earns its 100% interest in either 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.

(b) In September 2007 the Company entered into an option agreement to acquire a 100% interest, subject to a 3% net smelter returns royalty in favour of the vendor, in the 28 km<sup>2</sup> Jackfish Property located in the Snow Lake District in Manitoba. To date the Company has paid \$55,000 cash and issued 80,000 common shares. In order to exercise its option it must also make cash and share payments of \$45,000 and 20,000 common shares on or before September 17, 2011. The Company was also required to spend a minimum of \$350,000 exploring the property which has been satisfied. The required payments of cash and shares were made subsequent to the balance sheet date thereby earning the Company its interests in this property. The Company also has the right to purchase two thirds or 2.0% of the net smelter returns royalty for \$2,000,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty. Prior to executing this agreement the Company had already staked certain land claims that are contiguous to the optioned property. The amounts presented represent the aggregate amounts expended on these combined properties.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 7 Mineral resource properties (continued):

- (c) 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 \$60,000 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. In order to exercise its option the Company must make three annual cash payments of \$30,000 commencing March 26, 2012. Having satisfied the requirement to complete a minimum of 2,000 metres of diamond drilling, the Company will acquire a 50% interest in the property provided it, has incurred a minimum of \$2,000,000 in exploration expenditures no later than March 26, 2012 of which \$1,672,644 has been incurred as at August 31, 2011. 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.
- (d) 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. Certain of these staked claims were assessed as not warranting sufficient work to enable future renewal and were allowed to lapse during the year thereby resulting in the recognition of a valuation allowance of \$738.
- (e) In December 2009 the Company finalized 3 separate option agreements which enable it to acquire a 100% interest, subject to a 2% net smelter returns royalty in favour of the respective vendors, in each of 3 gold properties located near Snow Lake Manitoba, These properties, collectively referred to as the Gold Dust Property, can be acquired according to the following terms:
- (i) The Company has paid \$15,000 and issued 40,000 common shares to the vendor relative to a 771 hectare property and, in order to exercise its option, is required to pay: (i) \$15,000 plus 40,000 common shares on or before December 29, 2011; (ii) \$25,000 plus 40,000 common shares on or before December 29, 2012; and (iii) \$45,000 plus 40,000 common shares on or before December 29, 2013. The cash payments may be settled through the issuance of common shares. The number of shares that would be required is equal to the amount due divided by the closing market price for the shares thirty days prior to the due date. The Company is also required to spend a minimum of \$500,000 exploring the property including \$175,000 by December 29, 2011, plus \$150,000 on or before December 29, 2012, plus \$175,000 on or before December 29, 2013. To August 31, 2011 the Company has incurred expenditures of \$171,427 relative to these expenditure requirements. The Company may also purchase one half or 1.0% of the net smelter returns royalty for \$1,000,000 and will have a right of first refusal on the remaining 1% net smelter returns royalty.
- (ii) The Company has paid \$60,000 to date and, in order to exercise its option, is required to make annual payments of \$20,000 with the next one due December 2012. The annual payments, 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 \$100,000 on or before December 29, 2011 and an additional \$50,000 by December 29 of each subsequent year. To August 31, 2011 the Company has incurred expenditures of \$76,804 relative to these expenditure requirements. The Company may 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 Company has issued 100,000 common shares to the vendor relative to this 1,270 hectare property and, in order to exercise its option, 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 \$125,000 by December 29, 2011, plus \$100,000 on or before December 29, 2012, plus \$150,000 on or before December 29, 2013. To August 31, 2011 the Company has incurred expenditures of \$150,555 relative to these commitments thereby satisfying the December 2011 expenditure requirement. The Company may 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 CONSOLIDATED FINANCIAL STATEMENTS

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### 7 Mineral resource properties (continued):

- (f) 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 Dunlop Reed property, located in the Snow Lake District in Manitoba. The Company has issued 25,000 common shares and made a payment of \$6,300 to keep the property in good standing. 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 continue to 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.
- (g) In October 2010 the Company entered into an option agreement to acquire a 100% interest, subject to a 3% net smelters return royalty in favour of the vendor, in the Black Gold Property, located near Timmins, Ontario. The Company has paid \$50,000 and issued 200,000 common shares. In order to exercise its option the Company is required to make 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. To August 31, 2011 the Company has incurred expenditures of \$142,140 relative to this commitment thereby satisfying the October 2012 expenditure requirement. Advance royalty payments of \$50,000 per year commence after a positive feasibility study has been completed. The Company may 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%.
- (h) In January 2011 the Company entered into an option agreement to acquire a 100% interest, subject to a 2% net smelters return royalty in favour of the vendor, in the Dickstone Property, located in the Snow Lake District in Manitoba. The Company has paid \$50,000 and, in order to exercise its option, is required to incur cumulative exploration expenditures of not less than \$500,000 by January 31, 2012, \$1,500,000 by January 31, 2013, \$2,500,000 by January 31, 2014, and \$3,500,000 by January 31, 2015. To August 31, 2011 the Company has incurred expenditures of \$142,795 relative to these expenditure requirements. As an element of these expenditures the Company must complete a minimum of 12,500 metres of diamond drilling on the property. In the event the Company earns its interest in this property the optionor may reacquire a 51% interest therein by paying Rockcliff an amount equal to three times the exploration expenditures incurred by Rockcliff during its earn-in period, and by surrendering its net smelters return royalty.
- (i) In February 2011 the Company entered into an option agreement to acquire a 100% interest, subject to a 2% net smelters return royalty in favour of the vendor, in the Spruce Point Property, located in the Snow Lake District in Manitoba. In order to exercise its option the Company is required to make payments of \$10,000 on or before February 10, 2012, \$20,000 on or before February 10, 2013, \$120,000 on or before February 10, 2014, and \$350,000 on or before February 10, 2015. The final two payments may, at the Company's discretion, be settled in common shares. The Company is also required to incur cumulative exploration expenditures of not less than \$200,000 by February 10, 2012, \$600,000 by February 10, 2013, \$1,400,000 by February 10, 2014, and \$2,400,000 by February 10, 2015. To August 31, 2011 the Company has incurred expenditures of \$1,512 relative to these expenditure requirements. In the event the Company earns its interest in this property the optionor may reacquire a 55% interest therein by paying two times the cash option payments made by Rockcliff, by incurring exploration expenditures that are twice those incurred by Rockcliff, and by surrendering its net smelters return royalty. Provided it has reacquired the 55% interest, the optionor may then 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.
- (j) The Company holds a 100% interest, subject to a 2% net smelter returns royalty in favour of the vendors, in the Shihan Property located in the Sault Saint Marie Mining Division in Ontario. Although the Company retains its interest in this property, a valuation allowance equal to the carrying value of the property was claimed in accordance with GAAP last fiscal year. This was required on the basis that no significant exploration had been conducted over the three most recent fiscal years. To the extent that additional charges are incurred on this property a new valuation is completed which may result in the recognition of an additional valuation allowance. During the current period exploration valued at \$74,384 was completed and a corresponding valuation allowance was recognized.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 8 Share capital:

(a) Authorized

Unlimited common shares.

(b) Issued

	2011	2010
Common shares	\$ 12,577,400	\$ 9,573,114
Warrants outstanding	<u>1,028,996</u>	<u>1,046,159</u>
Share capital	<u>\$ 13,606,396</u>	<u>\$ 10,619,273</u>

#### Common shares:

	No of shares	Value
Balance – August 31, 2009	29,408,893	\$ 7,759,670
Common shares issued through private placement <sup>(1)</sup>	5,000,000	272,656
Flow through shares issued through private placement <sup>(2)</sup>	8,000,000	948,809
Common shares issued through private placement <sup>(3)</sup>	5,000,000	434,356
Shares issued upon exercise of warrants	500,000	90,187
Shares issued upon exercise of agents' units <sup>(4)</sup>	63,705	8,016
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	48,494,637	9,573,114
Common shares issued through private placement <sup>(5)</sup>	6,666,667	450,317
Flow through shares issued through private placement <sup>(6)</sup>	15,000,000	1,409,371
Shares issued upon exercise of warrants	4,777,000	908,050
Shares issued upon exercise of agents' units <sup>(7)</sup>	386,295	55,698
Shares issued upon exercise of underlying warrants	394,670	71,200
Shares issued on exercise of stock options	300,000	45,000
Shares issued for mining properties or rights	<u>335,000</u>	<u>64,650</u>
Balance - August 31, 2011	<u>76,354,269</u>	<u>\$ 12,577,400</u>

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

<sup>(2)</sup> Reported net of warrants valued at \$391,191 and the \$660,000 estimated tax value of the exploration expenditures renounced in accordance with the terms of these shares.

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

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

<sup>(5)</sup> Reported net of cash offering costs of \$307,290 and warrants and comp warrants valued at \$242,393.

<sup>(6)</sup> Reported net of warrants and comp warrants valued at \$660,869 and the \$929,760 estimated tax value of the exploration expenditures renounced in accordance with the terms of these shares.

<sup>(7)</sup> Reported net of underlying warrants valued at \$11,239.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 8 Share capital (continued):

(b) Issued (continued)

Warrants not yet exercised:

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	1,046,159
Value attributed to warrants and comp warrants issued through private placement	903,262
Value attributed to agents' units exercised	(28,306)
Value attributed to underlying warrants exercised	(12,000)
Value attributed to underlying warrants issued upon exercise of agents' units	11,239
Value attributed to warrants and comp warrants exercised	(177,651)
Value added to contributed surplus upon expiry of underlying warrants	<u>(713,707)</u>
Balance – August 31, 2011	<u>\$ 1,028,996</u>

(c) Details of options outstanding are as follows:

	Common Shares <u>Under Option</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	50,000 <sup>(4)</sup>	\$ 0.20	Sept 29, 2011
	800,000 <sup>(1)</sup>	\$ 0.47	Mar. 27, 2012
	1,100,000 <sup>(1)</sup>	\$ 0.15	June 17, 2014
	250,000 <sup>(1)</sup>	\$ 0.20	Oct 14, 2014
	200,000 <sup>(1)</sup>	\$ 0.28	Mar. 10, 2015
	<u>1,500,000</u> <sup>(1)</sup>	\$ 0.20	Sept. 29, 2015
	<u>3,900,000</u> <sup>(2)</sup>		
<u>Description</u>	<u>Common Shares Under Option</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Beginning of year	3,100,000	\$ 0.28	Aug. 10, 2013
Options altered <sup>(3)</sup>	(600,000)	\$ 0.31	May 7, 2013
Options altered <sup>(3)</sup>	600,000	\$ 0.31	Mar. 14, 2011
Options granted during year	1,500,000	\$ 0.20	Sept. 29, 2015
Exercised during year	(300,000)	\$ 0.15	Mar. 14, 2011
Expired during year	<u>(400,000)</u>	\$ 0.39	Apr. 20, 2011
End of year	<u>3,900,000</u>	\$ 0.25	July 9, 2014

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

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

<sup>(3)</sup> The expiry date of these options was reduced as a consequence of the holder having not been re-elected to the Company's Board at the September 14, 2010 shareholders' meeting.

<sup>(4)</sup> These options were not exercised and expired subsequent to the balance sheet date.

**ROCKCLIFF RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2011 AND 2010**

**8 Share capital (continued):**

(d) Details of warrants outstanding are as follows:

	<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	1,250,000	\$1.50	March 26, 2012
	3,750,000	\$0.30	June 1, 2012
	580,500	\$0.20	June 1, 2012
	1,305,000	\$0.30	June 14, 2012
	6,105,418	\$0.30	June 15, 2012
	295,200	\$0.20	June 15, 2012
	66,667	\$0.15	June 15, 2012
	3,006,249	\$0.30	June 20, 2012
	218,000	\$0.20	June 20, 2012
	<u>232,001</u>	\$0.15	June 20, 2012
	<u>16,809,035</u>		

<u>Description</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Beginning of year	15,791,500	\$ 0.40	June 20, 2011
Issued during year	15,945,330	\$ 0.29	June 1, 2012
Exercised during year	(5,171,670)	\$ 0.15	April 12, 2011
Expired during year	<u>(9,756,125)</u>	\$ 0.38	June 17, 2011
End of year	<u>16,809,035</u>	\$ 0.35	June 6, 2012

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

	<b>2011</b>	2010
Dividend yield	<b>Nil</b>	Nil
Risk free interest rate (%)	<b>0.99 - 1.56</b>	0.77 - 1.40
Expected stock volatility (%)	<b>122.37 - 124.12</b>	128.15 - 139.50
Expected life (years)	<b>0.21 - 1.50</b>	0.64 - 2.07

(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 period will be determined using the Black-Scholes model and will be reported as Stock option compensation and added to Contributed surplus.

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

	<b>2011</b>	2010
Dividend yield	<b>Nil</b>	Nil
Risk free interest rate (%)	<b>2.04</b>	1.21-2.80
Expected stock volatility (%)	<b>126.17</b>	94.44-139.63
Expected life (years)	<b>5</b>	1-5

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 8 Share capital (continued):

(f) Contributed surplus:

	2011	2010
Opening balance	\$ 1,311,668	\$ 624,921
Expiry of warrants	713,707	592,570
Compensation expense related to stock options	<u>227,163</u>	<u>94,177</u>
Closing balance	<u>\$ 2,252,538</u>	<u>\$ 1,311,668</u>

### 9 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 Inc. (“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, 2011 there was \$64,487 (2010 - \$70,039) included in accounts payable and accrued liabilities as a result of these transactions:

	2011	2010
Lapierre Exploration expenditures	\$ 188,750	\$ 180,097
Lapierre Consulting fees and expenses	16,250	28,036
Lapierre Disposal of assets <sup>(1)</sup>	221	-
Geodigital Exploration expenditures	6,600	182,563
Geodigital Consulting fees and expenses	-	5,919
Geodigital Disposal of assets <sup>(1)</sup>	-	7,687
Gardiner Professional fees	102,959	73,508
Gardiner Stock issuance fees	22,500	14,414
Public Consulting fees and expenses	17,500	20,000
MDI Consulting fees and expenses	58,012	56,638

<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.

### 10 Income taxes:

#### Current income taxes

A reconciliation of combined federal and provincial corporate income taxes at the Company’s effective tax rate of 28.92% (2010 – 31.99%) is as follows:

	2011	2010
Net loss for the year	<u>\$ (2,835,034)</u>	<u>\$ (3,115,418)</u>
Income taxes at statutory rates	\$ (819,791)	\$ (996,763)
Expenses not deductible for income tax purposes	66,179	30,896
Capital cost allowance claimed in excess of accounting amortization	(19,615)	2,781
Valuation allowance on mineral resource properties	<u>619,557</u>	<u>823,087</u>
	<u>(153,670)</u>	<u>(139,999)</u>
Non-capital losses reported	<u>153,670</u>	<u>139,999</u>
Current income tax expense	<u>\$ -</u>	<u>\$ -</u>

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 10 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	437,569
2031	<u>531,424</u>
	<u>\$ 2,123,386</u>

In addition, the Company has approximately \$1,728,209 in Canadian Exploration Expenditures ("CEE") and \$1,420,634 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:

	2011	2010
Opening balance	\$ 1,738,880	\$ 1,701,899
Exploration expenditures renounced during year	929,760	660,000
Previously renounced expenditures charged to income in the year	(531,255)	(511,157)
Exploration expenditures deferred for income tax purposes	(132,253)	(15,197)
Future income taxes (recovered) due to change in tax rates	<u>(292,961)</u>	<u>(96,665)</u>
Closing balance	<u>\$ 1,716,233</u>	<u>\$ 1,738,880</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:

	2011	2010
Non-capital losses	\$ 530,847	\$ 397,997
Undepreciated capital cost	23,310	40,383
Cumulative exploration and development expenditures	787,211	659,020
Renounced cumulative exploration expenditures	(2,503,444)	(2,397,900)
Valuation allowance	<u>(554,157)</u>	<u>(438,374)</u>
	<u>\$ (1,716,233)</u>	<u>\$ (1,738,880)</u>

### 11 Commitments:

(a) The Company has signed a lease for its administrative office in Toronto, Ontario which expires December 31, 2011 and requires monthly comprehensive lease payments of \$2,000. Rent to December 31, 2011 has been prepaid.

The Company utilizes a facility on a month-to-month basis for its field office and accommodation in Snow Lake, Manitoba at a monthly rental rate of \$800 plus applicable utilities. Rent to December 31, 2011 has been prepaid.

The Company utilizes a facility on a month-to-month basis for cataloguing and storing drill core in Snow Lake Manitoba at a monthly rental rate of \$1,500 plus applicable utilities. Rent to September 30, 2011 has been prepaid.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 11 Commitments (continued):

- (b) The Company is committed to making the following future payments under the terms of the HudBay property option agreements as described in Note 7 (a):

	<b>Cash Payments</b>
March 2012	<u>\$ 310,000</u>

The Company has satisfied all exploration expenditure requirements relative to these properties.

- (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 7 (b):

	<b>Cash Payments</b>	<b>Number of Shares</b>
September 2011	<u>\$ 45,000</u>	<u>20,000</u>

The Company has incurred \$692,977 in exploration expenditures, and has received government grants aggregating \$21,968. The payments of cash and shares required during September 2011 were made subsequent to the balance sheet date thereby satisfying all aspects of the option agreement and accordingly the Company has earned its interest in this property.

- (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 7 (c):

	<b>Cash Payments</b>	<b>Exploration Expenditures</b>
March 2012	\$ 30,000	2,000,000
March 2013	30,000	-
March 2014	<u>30,000</u>	<u>2,000,000</u>
	<u>\$ 90,000</u>	<u>\$ 4,000,000</u>

The Company has incurred \$1,672,644 in exploration expenditures, and has received government grants aggregating \$59,901. All cash payments and share purchase warrant issuances required to date have been made in accordance with the agreement.

- (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 7 (e):

	<b>Cash Payments</b>	<b>Number of Shares</b>	<b>Exploration Expenditures</b>
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>\$ 145,000</u>	<u>270,000</u>	<u>\$ 900,000</u>

The Company has made cash payments of \$75,000, issued 180,000 shares and incurred exploration expenditures of \$398,785 including having satisfied the December 2010 expenditure requirement of \$175,000. In addition to the amounts noted above the Company is required to continue to make annual cash payments of \$20,000 each December 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.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 11 Commitments (continued):

(e) (continued)

The cash and share payments due December 29, 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:

	<b>2011</b>	<b>2010</b>
Property option commitment	\$ <b>30,300</b>	\$ 62,400
Less: current portion	<b>(30,300)</b>	(31,200)
	<u>\$ -</u>	<u>\$ 31,200</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 Dunlop Reed property option agreement as described in Note 7 (f):

	<b>Number of Shares</b>
March 2012	25,000
March 2013	<u>25,000</u>
	<u>50,000</u>

The Company is also required to maintain the property in good standing. All share issuances required to date have been made in accordance with the agreement.

(g) The Company is committed to making the following payments (cash, shares and exploration expenditures) under the terms of the Black Gold Property option agreements as described in Note 7 (g):

	<b>Cash Payments</b>	<b>Number of Shares</b>	<b>Exploration Expenditures</b>
October 2011	\$ 50,000	200,000	\$ 50,000
October 2012	50,000	200,000	50,000
October 2013	50,000	200,000	50,000
October 2014	<u>50,000</u>	<u>200,000</u>	<u>350,000</u>
	<u>\$ 200,000</u>	<u>800,000</u>	<u>\$ 500,000</u>

The Company has made cash payments of \$50,000, issued 200,000 shares and incurred exploration expenditures of \$142,140 relative to the commitments noted above. The payments of cash and shares due October 2011 were made subsequent to the balance sheet date as required.

(h) The Company is committed to making the following exploration expenditures under the terms of the Dickstone Property option agreement as described in Note 7 (h):

	<b>Exploration Expenditures</b>
January 2012	\$ 500,000
January 2013	1,000,000
January 2014	1,000,000
January 2015	<u>1,000,000</u>
	<u>\$ 3,500,000</u>

The Company has made a cash payment of \$50,000 and incurred exploration expenditures of \$142,795 relative to the commitments noted above. As a component of the expenditures noted above, the Company is required to complete at least 12,500 metres of diamond drilling no later than January 2015.

# ROCKCLIFF RESOURCES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011 AND 2010

### 11 Commitments (continued):

(i) The Company is committed to making the following payments (cash and exploration expenditures) under the terms of the Spruce Point Property option agreement as described in Note 6 (i):

	Cash Payments	Exploration Expenditures
February 2012	\$ 10,000	\$ 200,000
February 2013	20,000	400,000
February 2014	120,000	800,000
February 2015	<u>350,000</u>	<u>1,000,000</u>
	<u>\$ 500,000</u>	<u>\$ 2,400,000</u>

The Company has incurred exploration expenditures of \$1,512 relative to the commitments noted above.

### 12 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:

	2011	2010
Share Capital	\$ 13,606,396	\$ 10,619,273
Contributed surplus	2,252,538	1,311,668
Deficit	<u>(5,696,230)</u>	<u>(3,813,603)</u>
Net capital under management	<u>\$ 10,162,704</u>	<u>\$ 8,117,338</u>

### 13 Supplemental cash flow information:

	2011	2010
Operating cash flows include:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash financing and investing activities:		
Shares issued to acquire mineral resource properties	\$ 64,650	\$ 24,150
Warrants issued to acquire mineral resource properties	-	125,734
Common shares issued in settlement of obligations	-	25,000
Property option commitment recorded	(17,100)	62,400
Canadian exploration expenditures renounced	929,760	660,000
Expired warrants transferred to contributed surplus	713,727	592,570

### 14 Subsequent events:

In November 2011 the Company initiated a private placement financing, and then increased it in December, whereby it has offered 22,727,272 flow-through units at a price of \$0.11 each and 5,000,000 units at a price of \$0.10 each for gross proceeds of \$3,000,000. 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 share purchase warrant will entitle the holder to acquire one common share of the Company at a price of \$0.18 for eighteen months following the closing date. All securities issued will be subject to a statutory four month hold period. The Company will pay cash finders' fees of up to 8% plus compensation warrants up to 8% of the number of units issued. Each compensation warrant will entitle the holder to acquire one common share of the Company at a price of \$0.18 for eighteen months following the closing date.

**ROCKCLIFF RESOURCES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2011 AND 2010**

**14 Subsequent events - continued:**

On November 30, 2011 the Company had a first closing of this offering whereby it issued 10,681,818 flow-through units for gross proceeds of \$1,175,000. The Company has paid cash fees of \$94,000 and issued 854,545 compensation warrants as a result of this first closing. The warrants and compensation warrants issued as a result of this first closing will expire on May 31, 2013 and the shares issued upon this closing will be restricted from trading until March 31, 2012.

On December 23, 2011 the Company had a second closing of this offering whereby it issued 8,633,337 flow-through units and 280,000 units for gross proceeds of \$977,667. The Company has paid cash fees of \$66,642 and issued 605,835 compensation warrants as a result of this second closing. The warrants and compensation warrants issued as a result of this first closing will expire on June 23, 2013 and the shares issued upon this closing will be restricted from trading until April 23, 2012.

The remainder of the offering remains open.