ROCA MINES INC.

CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2011 and 2010

(Expressed in Canadian Funds)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Roca Mines Inc.:

The accompanying consolidated financial statements of Roca Mines Inc. (the "Company") have been prepared by, and are the responsibility of management of the Company. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, and reflect management's best estimates and judgement based on currently available information.

The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through activities of its Audit Committee which is composed of two directors. This Committee meets with management and the independent auditors to review the scope and results of the annual audit, and to review the audited consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is accurate and reliable.

"David Skerlec"

David J. Skerlec
Chief Financial Officer and Secretary

"Scott Broughton"

Scott E. Broughton
President and Chief Executive Officer

December 23, 2011

Independent Auditor's Report

To the Shareholders of Roca Mines Inc.

We have audited the accompanying consolidated financial statements of Roca Mines Inc., which comprise the consolidated balance sheets as at August 31, 2011 and 2010 and the consolidated statements of operations and loss, comprehensive loss, cash flows and shareholders' equity and deficit for the years ended then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated 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 control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

PricewaterhouseCoopers LLP Chartered Accountants
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806, www.pwc.com/ca

We believe that the audit evidence we have obtained in our audit 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 Roca Mines Inc. as at August 31, 2011 and 2010 and their financial performance and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Roca Mines Inc.
Consolidated Balance Sheets
As at August 31
Canadian Funds

ASSETS	2011	2010
Current		
Cash and cash equivalents	$ 12,096	$ 162,357
Accounts receivable	551,988	1,100,161
Prepaid expenses and deposits	152,495	80,170
Inventories *(Note 3)*	565,951	548,010
Marketable securities	-	7,500
	1,282,530	1,898,198
Property, Plant and Equipment *(Note 4)*	2,399,558	18,439,129
Resource Property Costs *(Note 5)*	7,627,781	7,469,411
Future income tax asset *(Note 10)*	-	1,515,643
Reclamation Bonds *(Note 7)*	752,900	758,900
	10,780,239	28,183,083
	$ 12,062,769	$ 30,081,281

LIABILITIES	2011	2010
Current		
Accounts payable and accrued liabilities	$ 2,160,984	$ 4,095,997
Due to related parties *(Note 9d)*	260,494	117,600
	2,421,478	4,213,597
Asset Retirement and Mine Closure Obligations *(Note 8)*	1,136,744	1,134,388
Other Long Term Liabilities	4,943	13,766
	3,563,165	5,361,751
SHAREHOLDERS' EQUITY		
Share Capital *(Note 6a)*	56,862,888	50,132,397
Contributed Surplus	13,543,304	12,841,343
Accumulated Other Comprehensive Loss	-	(12,500)
Deficit	(61,906,588)	(38,241,710)
	8,499,604	24,719,530
	$ 12,062,769	$ 30,081,281

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Note 11)*
Financial Instruments *(Note 12)*

ON BEHALF OF THE BOARD:

"Scott Broughton", Scott E. Broughton, Director

"David Skerlec", David J. Skerlec, Director

Roca Mines Inc.
Consolidated Statements of Operations and Loss
For the Years Ended August 31
Canadian Funds

	2011	2010
Revenues	$ **1,773,845**	$ 17,649,841
Cost of Sales		
Operating expenses	**2,849,298**	16,489,167
Depletion, amortization and accretion	**243,107**	1,651,096
Mining Loss	**(1,318,560)**	(490,422)
Expenses		
Temporary shutdown costs *(Note 4)*	**2,457,224**	-
General and administrative	**1,000,494**	1,268,151
Stock-based compensation *(Note 6b)*	**-**	532,190
Generative exploration and resource costs written-off *(Note 5b)*	**-**	479,790
Loss from Operations	**(4,776,278)**	(2,770,553)
Other Income (expenses)		
Write-down of plant & equipment *(Note 4)*	**(17,419,986)**	-
Write-down of parts inventory *(Note 3)*	**(137,974)**	-
Loss on sale of marketable securities	**(1,775)**	-
Foreign exchange loss	**(18,978)**	(110,459)
Gain on disposal of property, plant and equipment	**201**	13,397
Interest income	**6,482**	10,175
Tax credit on abandoned property	**199,073**	10,944
Loss Before Taxes	**(22,149,235)**	(2,846,496)
Income and Mining Tax Provision (recovery) *(Note 10)*		
Current	**-**	(105,651)
Future	**1,515,643**	11,498,831
	1,515,643	11,393,180
Net Loss for the Year	$ **(23,664,878)**	$ (14,239,676)
Net Loss per Share - Basic and Diluted	$ **(0.21)**	$ (0.15)
Weighted Average Number of Common Shares Outstanding	**112,877,501**	92,490,071

Roca Mines Inc.
Consolidated Statement of Comprehensive Loss
For the Years Ended August 31
Canadian Funds

	2011	2010
Net Loss for the Year	$ **(23,664,878)**	$ (14,239,676)
Unrealized gain (loss) on marketable securities	**4,000**	1,500
Reclassification on disposition of marketable securities	**(8,500)**	-
Comprehensive Loss for the Year	$ **(23,669,378)**	$ (14,238,176)

- See Accompanying Notes to the Consolidated Financial Statements -

Roca Mines Inc.
Consolidated Statements of Cash Flows
For the Years Ended August 31
Canadian Funds

		2011		2010
Operating Activities				
Loss for the year	**$**	**(23,664,878)**	$	(14,239,676)
Less: Items not affected by cash:				
Future income tax expense		**1,515,643**		11,498,831
Amortization, depletion, accretion		**270,581**		1,651,096
Stock-based compensation		**-**		532,190
Resource costs written-off		**-**		464,580
Write-down of inventory		**235,597**		-
Write-down of plant and equipment		**17,419,986**		-
Write-down of parts inventory		**137,974**		-
Loss on sale of marketable securities		**1,775**		-
Gain on disposal of property, plant and equipment		**(201)**		(13,397)
Tax credit on abandoned property		**(199,073)**		-
Changes in non-cash working capital items:				
Accounts receivable		**362,488**		1,929,440
Inventory		**(353,116)**		133,782
Prepaid expenses and deposits		**(55,570)**		116,568
Accounts payable, accrued liabilities, due to related party		**(1,054,627)**		588,310
		(5,383,421)		2,661,724
Investing Activities				
Marketable securities		**18,225**		-
Purchase of property, plant and equipment		**(2,171,797)**		(5,727,211)
Resource property costs, *net of exploration tax credits*		**(51,720)**		(71,443)
Reclamation bonds refunded		**6,000**		9,000
		(2,199,292)		(5,789,654)
Financing Activities				
Equity issuance proceeds		**7,705,000**		535,493
Equity issuance costs		**(272,548)**		-
		7,432,452		535,493
Net Increase (Decrease) in Cash and Cash Equivalents		**(150,261)**		(2,592,437)
Cash and cash equivalents - Beginning of year		**162,357**		2,754,794
Cash and Cash Equivalents - End of Year	**$**	**12,096**	$	162,357

Supplemental Schedule of Non-Cash Investing and Financing Transactions				
Plant and equipment expenditures included in accounts receivable	**$**	**185,685**	$	-
Plant and equipment expenditures included in accounts payable	**$**	**(645,069)**	$	745,003
Resource property expenditures included in accounts payable	**$**	**(92,423)**	$	82,219
Stock-based compensation recorded as investing activities	**$**	**-**	$	177,271
Future income tax included in property expenditures	**$**	**-**	$	65,265
Fair value of warrants issued for finance fees	**$**	**90,804**	$	-

- See Accompanying Notes to the Consolidated Financial Statements -

Roca Mines Inc.
Consolidated Statements of Shareholders' Equity and Deficit

Canadian Funds, except share amounts.

	Year Ended August 31, 2011		Year Ended August 31, 2010	
	Number of Shares		Number of Shares	
Share capital				
Balance at beginning of year	93,164,898	$ 50,132,397	91,420,628	$ 49,414,564
Issued for cash				
Private placement	20,400,000	4,531,852	-	-
Private Placement	10,000,000	2,394,327	-	-
Exercise of stock options	-	-	750,000	187,500
Exercise of warrants	300,000	105,000	970,000	339,500
Exercise of agent warrants	-	-	24,270	8,494
Fair value of options exercised	-	-	-	113,538
Fair value of warrants exercised	-	25,412	-	72,070
Fair value of agent warrants exercised	-	-	-	2,798
Share issuance costs	-	(326,100)	-	(6,067)
Balance at end of year	123,864,898	56,862,888	93,164,898	50,132,397
Contributed surplus				
Balance at beginning of year		12,841,343		12,314,222
Fair value stock-based compensation		-		709,461
Unit proceeds allocated to warrants		673,821		-
Fair value of agent warrants issued		90,804		-
Issuance costs attributable to warrants		(39,128)		-
Issuance costs for warrants exercised		1,876		6,066
Fair value of options exercised		-		(113,538)
Fair value of warrants exercised		(25,412)		(72,070)
Fair value of agent warrants exercised		-		(2,798)
Balance at end of year		13,543,304		12,841,343
Accumulated other comprehensive loss				
Balance at beginning of period		(12,500)		(14,000)
Unrealized gain (loss) on marketable securities		4,000		1,500
Reclassification on disposition of marketable securities		8,500		-
Balance at end of year		-		(12,500)
Deficit				
Balance at beginning of year		(38,241,710)		(24,002,034)
Net loss for the year		(23,664,878)		(14,239,676)
Balance at end of year		(61,906,588)		(38,241,710)
TOTAL SHAREHOLDERS' EQUITY	123,864,898	$ 8,499,604	93,164,898	$ 24,719,530

- See Accompanying Notes to the Consolidated Financial Statements -

1. Nature of Operations and Going Concern

Roca Mines Inc. (the "Company") engages principally in the exploration, development and mining of resource properties in North America. The Company maintains a wholly-owned subsidiary, Minera ROK, S.A. de C.V. to hold potential property interests in Mexico. The Company's wholly-owned subsidiary, FortyTwo Metals Inc., operates the Max Molybdenum Mine southeast of Revelstoke British Columbia, which is a producer of molybdenite concentrates exported under the terms of an offtake agreement. The Max Molybdenum Mine has been suspended indefinitely until commodity prices improve and/or until new mine development is completed to justify a profitable operation.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the year ended August 31, 2011, the Company reported a loss of $23,664,878 and an accumulated deficit of $61,906,588 at that date. The Company had a working capital deficit of $1,138,948 and cash and cash equivalents at August 31, 2011 amounted to $12,096. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern.

The Max Molybdenum Mine has encountered operating difficulties over the past year including conditions which have delivered lower than expected grades. Continuing operations as a going concern are dependent upon management's ability to reactivate the mine and improve operating margins or to raise adequate financing and to ultimately achieve profitable operations in the future. Management has implemented a series of cost cutting measures and continues to seek financing for the Company. Although management has been successful in the past; there is no assurance that these initiatives will be successful in the future.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Significant Accounting Policies

a) **Basis of Preparation**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The financial statements are presented in Canadian dollars on a consolidated basis and include the accounts of the Company's subsidiaries Minera ROK, S.A. de C.V., and FortyTwo Metals Inc. Intercompany accounts and transactions have been eliminated on consolidation.

b) **Accounting Developments -** International Financial Reporting Standards

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements the year ended August 31, 2012. The Company will also be required to restate comparatives presented to be in accordance with IFRS.

2. Significant Accounting Policies - *Continued*

c) **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit with banks and short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition.

d) **Marketable Securities**

Marketable Securities are classified as available for sale and recorded at fair value, with temporary changes in fair value recorded in other comprehensive income. Other than temporary declines in value are recognized through net income.

e) **Accounts Receivable**

Accounts receivable are carried at the lower of cost or net realizable value. The receivables are reviewed on a periodic basis to determine collectability. Collectability is determined on an individual customer basis based on payment history, age of the receivable and credit worthiness of the customer. Receivables are written off if they are determined to be uncollectible.

The Company's metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. As a result, the values of concentrate receivables change as the underlying commodity market prices vary and are based on management's estimates of final settlement values at the balance sheet date.

f) **Resource Properties Costs**

Resource exploration and development costs are capitalized on an individual prospect basis until such time as the Company begins production on the prospect or the prospect is sold, abandoned, allowed to lapse, or determined to be impaired.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, option payments and receipts are recorded as resource property costs or recoveries when the payments are made or received.

Deferred exploration and development costs for properties placed into production are amortized on a unit of production basis, over the estimated mine life. Costs for prospects that are abandoned are written off at the time a decision is made not to continue exploration and development. Payments received by the Company when a property is optioned to another party are recorded as an offset to acquisition costs until those payments exceed expenditures, at which point they are recognized in net income.

The recoverability of the amount capitalized for the undeveloped resource properties is dependent upon the development of a commercially viable mining operation, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration or development of such properties, these procedures do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claims of title.

2. Significant Accounting Policies - *Continued*

g) Property, Plant and Equipment

Plant and equipment are recorded at cost. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized. Assets used in production are subject to depreciation on the basis described below:

Mine property and development costs, plant and equipment are amortized, net of estimated residual values, over the estimated remaining mine life, on a unit of production basis. Other fixed assets are depreciated, net of residual value, over the expected useful life of the asset on a straight-line basis.

h) Inventories

Consumable parts and supplies are valued at the lower of cost and net realizable value on a first-in, first-out basis. Product inventory, including work in progress is valued at the lower of average production cost or net realizable value. Production cost represents production costs for concentrates including material costs, direct labour, mine and mill site overhead and amortization and depletion.

i) Impairment of Long-lived Assets

The Company assesses the possibility of impairment in the net carrying value of its long lived assets when events or circumstances indicate impairment may have occurred. Where information is available, estimated future net cash flows from each asset or asset group are calculated using estimated future prices, proven and probable reserves if available, and a portion of measured, indicated and inferred resources, and operating, capital and reclamation costs on an undiscounted basis. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If any impairment is identified, the carrying value of the asset or asset group is written down to its estimated fair value.

j) Revenue Recognition

Sales are recognized when title transfers and the rights and obligations of ownership pass to the customer. The Company's metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on estimated prices for the expected date of final settlement. As a result, the values of concentrate receivables change as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in revenue.

k) Foreign Exchange

The Company's functional and reporting currency is the Canadian dollar. Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each balance sheet date to reflect exchange rates prevailing at that date. Gains and losses on translation are charged to the consolidated statements of operations and loss for the year. The Company's subsidiaries are considered to be integrated operations and their results and financial positions are translated into the functional currency using the temporal method as follows:

2. Significant Accounting Policies - *Continued*

i) Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date,

ii) Non-monetary assets, liabilities and equity at historical rates, and

iii) Revenue and expense items at the average rate of exchange prevailing during the period, except depreciation which is recorded at historical rates

l) **Asset Retirement Obligations**

The Company follows the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on the same basis as the underlying asset.

Asset retirement obligations are adjusted to reflect the passage of time (accretion) calculated by applying the discount factor implicit in the initial fair value measurement to the beginning-of-period carrying amount of the obligation. The value of asset retirement obligations is evaluated on an annual basis or as new information becomes available on expected amounts and timing of cash flows required to discharge the liability. These changes are recorded in the period in which they are identified and when costs can be quantified reasonably.

m) **Income Taxes**

Future income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. If realization of future income tax assets is not considered more likely than not, a valuation allowance is provided.

n) **Management's Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

o) **Share Capital**

i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.
ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.
iii) The proceeds from the issuance of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the Black-Scholes pricing model.

2. Significant Accounting Policies - *Continued*

p) Stock-Based Compensation

The Company has a stock option plan which is described in Note 6b. Stock-based compensation is recorded using a fair value based method on the date of grant, determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as both stock compensation expense and contributed surplus. Proceeds arising from the exercise of stock options are credited to share capital. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and is charged to operations or capitalized to mineral properties, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

q) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year.

The Company follows the “treasury stock” method in the calculation of diluted earnings per share. This method recognizes the proceeds that could be obtained upon exercise of any options and warrants only when such exercise would have a dilutive effect on earnings per share. It assumes that any proceeds from exercise would be used to purchase common shares at the average market price prevailing during the period. In periods in which the Company incurs losses, the exercise of any outstanding options and warrants would be anti-dilutive, and therefore basic and diluted earnings (loss) per share are the same.

r) Mineral Exploration Tax Credits (“METC”)

The Company recognizes METC amounts and applies those amounts as a credit against deferred exploration costs when the Company’s application for tax credits is approved by Canada Revenue Agency. If tax credits are approved on projects which have previously been written off, the Company recognizes the tax credit as a gain in the consolidated statement of operations and loss.

3. Inventories

Details are as follows:		**August 31, 2011**		August 31, 2010
Consumable parts and supplies	**$**	**289,946**	$	369,211
Product inventory		**276,005**		178,799
Total	**$**	**565,951**	$	548,010

During the year ended August 31, 2011, the Company expensed a write-down of $235,597 (2010 – $Nil) on its product inventory and $137,974 (2010 – $Nil) on its parts and supplies inventory in order to record inventories at net realizable value. Inventories held at August 31, 2011 are measured at estimated net realizable value.

4. Property, Plant and Equipment

Details are as follows:

	Cost	Accumulated Amortization and Depletion [1]	Written-off[2]	**August 31, 2011 Net Book Value**
Mine property and development costs	$ 44,260,989	$ 28,342,364	$ **15,163,601**	**$ 755,024**
Plant and equipment	18,212,012	16,442,677	**613,795**	**1,155,540**
Buildings and support facilities	6,190,523	5,446,403	**430,252**	**313,868**
Construction in progress	1,291,253	-	**1,197,197**	**94,056**
Acquisition – MAX property	920,460	824,249	**15,141**	**81,070**
	$ 70,875,237	$ 51,055,693	$ **17,419,986**	**$ 2,399,558**

	Cost	Accumulated Amortization and Depletion [1]	**August 31, 2010 Net Book Value**
Mine property and development costs	$ 42,658,476	$ 28,126,460	**$ 14,532,016**
Plant and equipment	18,193,918	16,423,316	**1,770,602**
Buildings and support facilities	6,179,110	5,426,211	**752,899**
Construction in progress	1,286,767	-	**1,286,767**
Acquisition – MAX property	920,460	823,615	**96,845**
	$ 69,238,731	$ 50,799,602	**$ 18,439,129**

Note 1. Pre-production costs were amortized on a unit of production basis over the Company's Phase I mine plan through May 31, 2009. As of June 1, 2009, upon a decision to advance the Company's Phase II mine plan, all capital costs for development and equipment available for use are now being amortized over the estimated Phase II mine life on a unit of production basis.

Note 2. At August 31, 2011, in light of ongoing operational difficulties and lower than targeted grades at the MAX Molybdenum mine, the Company determined that the operation's future was in significant doubt and that the MAX mine was impaired. Property, plant and equipment has been written down to its estimated fair value of $2,399,588. The fair value assessment used a historical cost and market comparison approach to determine the estimated net recoverable amount of mine property, plant and equipment.

Temporary Shutdown Costs

During periods in which the Company's mining and milling activities are considered non-operational, monitoring, security, and all associated mine property costs are expensed in the period in which they are occurred as *Temporary Shutdown Costs* until production resumes. During the year ended August 31, 2011, the Company incurred a total of $2,457,224 in temporary shutdown costs until mine development costs resumed in June and milling operations in July of 2011.

5. Resource Property Costs

Details are as follows:

	Acquisition (Recovery)	Deferred Exploration & Development	Gain (Write-off)	**Total August 31, 2011**	Total August 31, 2010
MAX Molybdenum Mine *(a)*	$ -	$ 976,313	$ -	$ **976,313**	$ 872,905
Nuevo Milenio Gold-Silver project*(b)*	-	464,580	(464,580)	**-**	-
Foremore VMS-Gold Project *(c)*	633,219	5,990,998	-	**6,624,217**	6,571,506
SeaGold Project *(d)*	-	27,251	-	**27,251**	25,000
	$ 633,219	$ 7,459,142	$ (464,580)	$ **7,627,781**	$ 7,469,411

a) **MAX Molybdenum Mine, Revelstoke Mining Division, B.C., Canada**

The Company, through its wholly owned subsidiary FortyTwo Metals Inc., holds a 100% interest in certain properties, known as the MAX Molybdenum Mine (“MAX”), located in the Revelstoke Mining Division, B.C. The MAX is subject to a 2.5% Net Smelter Return (“NSR”). The Company may purchase, at any time, up to 60% of the NSR by paying $1,000,000 for each 30% ($2,000,000 for the full 60% of the 2.5% NSR). The Company has also acquired a 100% interest in certain crown grants, mining leases and mineral claims contiguous to the core MAX mineral claims. The Company granted a 2.5% NSR on the contiguous property, which can be reduced to 1% upon payment of $2,000,000 at any time prior to commencement of commercial production. The Company must also issue 200,000 shares if it commences commercial production from any part of the contiguous property.

b) **Nuevo Milenio Gold-Silver Project, Tepic, Nayarit State, Mexico**

During the year ended August 31, 2009, the Company entered into an option agreement with Cream Minerals Ltd. (“CMA”) to acquire up to a 70% interest in CMA’s Nuevo Milenio Project in Nayarit State, Mexico. In order to acquire a 50% interest in the property, the Company was required to spend US$1,000,000 in the first year and a total of US$12,000,000 in exploration work on the property by July 24, 2013. The Company cancelled the option agreement and has written-off all deferred exploration dollars incurred totalling $479,790 as of August 31, 2010.

c) **FOREMORE VMS-Gold Project, Liard Mining Division, B.C., Canada**

The Company holds a 100% interest in certain properties, known as the Foremore Project located in the Liard Mining Division, B.C. The Foremore Project is subject to a 2.5% NSR, which can be reduced to 1% for payments totalling $2,000,000. The Company is required to make annual advance royalty payments of $50,000 ceasing in the year in which commercial production commences. Advance royalty payments paid until commercial production is reached may be applied as a reduction of future royalty payments. The Company must also issue 200,000 common shares to the vendor upon the commencement of commercial production.

d) **SEAGOLD Project, Liard Mining Division, B.C., Canada**

The Company holds a 50% interest in certain properties, known as the SeaGold Project in the Liard Mining Division, B.C. The balance of 50% is held by the Company’s joint venture partner, Romios Gold Resources Inc. (“Romios”), subject to Romios issuing 200,000 common shares to the original property vendor upon the commencement of commercial production. The SeaGold Project is subject to a 2.5% NSR, reducible to 1% for payments totalling $2,000,000. Advance annual royalty payments of $30,000 are payable by the joint venture, ceasing in the year in which commercial production commences. Advance royalty payments paid to commercial production may be applied as a reduction of future royalty payments.

Measurement uncertainty and impairment assessments

As at August 31, 2011, management of the Company determined that impairment indicators existed, and completed impairment assessments for each of its resource property interests. The current economic environment and the decline in the Company’s share price were considered as impairment indicators.

5. Resource Property Costs - *Continued*

These assessments included a determination of fair value for each resource property using various valuation techniques including in-situ values, commodity price changes and recent expenditures analysis. Management's impairment evaluation did not result in the identification of an impairment of the Company's resource property interests as of August 31, 2011. Although management believes the estimates applied in these impairment assessments are reasonable, such estimates are subject to significant uncertainties and judgments. If long-term estimates of commodity prices, in-situ values or other factors were to change significantly, impairment charges may be required in future periods and such charges could be material.

6. Shareholder's Equity

a) **Share Capital**

The authorized share capital of the Company consists of an unlimited number of common shares without par value. At August 31, 2011 there were 123,864,898 common shares outstanding.

On May 9, 2011 the Company completed a private placement for gross proceeds of $2,500,000. 10,000,000 units were issued at a price of $0.25, each consisting of one common share and one half of a common share purchase warrant, each whole warrant entitling the holder to acquire one additional common share through May 9, 2012 at a price of $0.30 per common share.

The prorated fair value of the 5,000,000 warrants issued was calculated to be $105,673 on the grant date and is accounted for as a reduction to proceeds from the common shares (to $2,394,327) with the offsetting entry to contributed surplus. The total fair value of the warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	1.64%
Expected dividend yield	Nil
Expected stock price volatility	42.58%
Average expected life	1 year

On November 12, 2010, the Company completed a private placement for gross proceeds of $5,100,000. 20,400,000 units were issued at a price of $0.25, each consisting of one common share and one half of a common share purchase warrant, each whole warrant entitling the holder to acquire one additional common share through November 12, 2011 at a price of $0.30 per common share. Cash finders' fees totalling $223,000 were paid, and 1,248,800 agent warrants were issued in connection with this offering, the agent warrants also exercisable until November 12, 2011, at $0.30 per common share.

The prorated fair value of the unit warrants issued was calculated to be $568,148 on the grant date and is accounted for as a reduction to proceeds from the common shares (to $4,531,852) with the offsetting entry to contributed surplus. The total fair value of the agent warrants issued was calculated to be $90,804 on the grant date and is accounted for in share issuance costs with the offsetting entry to contributed surplus. The total fair value of warrants and agent warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Warrants	*Agent Warrants*
Number of warrants	10,200,000	1,248,800
Average risk-free interest rate	1.71%	1.71%
Expected dividend yield	Nil	Nil
Expected stock price volatility	65.6%	65.6%
Average expected life	1 year	1 year

6. Shareholder's Equity - *Continued*

b) Stock Options

The Company established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan was not to exceed 10% of the issued and outstanding common shares. Options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the board of directors and the exercise price of an option is not less than a prescribed discount from the closing price on the TSX Venture Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors.

The Company's stock option plan did not receive shareholder approval at the Company's annual general meeting in February of 2010 as required by the policies of the TSX Venture Exchange. As a result, while all previously granted options remained valid and outstanding, the Company was prevented from granting further exercisable incentive stock options.

During the year ended August 31, 2011, a total of 925,000 incentive stock options expired following the resignation of directors, employees and upon cancellation of certain consulting contracts. A further 3,705,000 options were voluntarily forfeited by directors, employees and consultants leaving nil options outstanding at August 31, 2011.

A summary of the Company's stock options at August 31, 2011 and the changes for the period are as follows:

Number Outstanding August 31, 2010	Forfeited	**Number Outstanding August 31, 2011**	Exercise Price Per Share	Expiry Date
1,150,000	(1,150,000)	**-**	$1.45	19-Feb-12
880,000	(880,000)	**-**	$1.00	19-Feb-12
875,000	(875,000)	**-**	$3.55	15-Nov-12
425,000	(425,000)	**-**	$1.00	15-Nov-12
650,000	(650,000)	**-**	$2.25	21-Aug-13
650,000	(650,000)	**-**	$1.00	21-Aug-13
4,630,000	(4,630,000)	**-**		

During the year ended August 31, 2010, 750,000 stock options were exercised by directors of the Company for proceeds of $187,500. The fair value of the options exercised during the period was calculated to be $113,538 which amount has been transferred to share capital from contributed surplus. Also during the year ended August 31, 2010, 975,000 options were cancelled following the resignation of a former Director of the Company.

Also during the year ended August 31, 2010, the Company reduced the exercise price of 1,955,000 previously granted incentive stock options held by various employees and consultants of the Company to an exercise price of $1.00 per common share. The options previously had exercise prices of $1.45, $2.25 or $3.55 and expiry dates ranging from February 19, 2012, to August 21, 2013. The total additional fair value of the option modifications was calculated to be $163,219 on the modification date, $133,571 of which was expensed and $29,648 was capitalized during the year ended August 31, 2010. The offsetting entries are to contributed surplus.

At August 31, 2010 there were 4,630,000 incentive stock options outstanding and exercisable at an average exercise price of $1.77. For the year ended August 31, 2010, a total of $709,461 in stock based compensation was recognized, of which $532,190 was expensed, with the remaining balances capitalized, which amounts include the effects of the exercise price modifications. The offsetting entries are to contributed surplus.

6. Shareholder's Equity - *Continued*

The fair value of stock options used to calculate the option modifications was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	1.41%
Expected dividend yield	Nil
Expected stock price volatility	1.06-1.50%
Average expected option life	1.55-2.67 years

c) **Warrants**

During the year ended August 31, 2011, a total of 15,200,000 warrants and 1,248,800 agent warrants were granted with an exercise price of $0.30. Also during that period, 300,000 warrants were exercised for proceeds of $105,000 and a total of 8,246,730 warrants and agent warrants expired unexercised. The fair value of the warrants exercised was calculated to be $25,412, which amount has been transferred to share capital from contributed surplus.

At August 31, 2011 there were a total of 16,448,800 warrants outstanding at an exercise price of $0.30. A summary of the changes during the period is as follows:

Number Outstanding August 31, 2010	Expired	Granted	Exercised	**Number Outstanding August 31, 2011**	Exercise Price Per Share	Expiry Date
-	-	5,000,000	-	**5,000,000**	$0.30	9-May-12
-		10,200,000	-	**10,200,000**	$0.30	12-Nov-11
-		1,248,800	-	**1,248,800**	$0.30	12-Nov-11
4,780,000	(4,480,000)	-	(300,000)	**-**	$0.35	27-Jan-11
26,730	(26,730)	-	-	**-**	$0.35	27-Jan-11
3,740,000	(3,740,000)	-	-	**-**	$0.35	13-Feb-11
8,546,730	(8,246,730)	16,448,800	(300,000)	**16,448,800**	$0.30	

During the year ended August 31, 2010, a total of 970,000 and 24,270 agent warrants were exercised for gross proceeds of $339,500 and $8,494 respectively. The fair value of the warrants exercised was calculated to be $72,070 and the agent warrants $2,798, which amounts have been transferred to share capital from contributed surplus.

7. Reclamation Bonds

At August 31, 2011, reclamation bonds totalling $752,900 were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

	August 31, 2011	August 31, 2010
MAX Molybdenum Project	$ **730,000**	$ 730,000
Foremore Project	**22,900**	22,900
Other projects	**-**	6,000
Total	$ **752,900**	$ 758,900

8. Asset Retirement and Mine Closure Obligations

For each property, management has estimated the costs of reclaiming any disturbances to its projects in accordance with the Company's accounting policies. Details of management's estimates of reclamation and mine closure costs are as follows:

		August 31, 2011		August 31, 2010
Balance – Beginning of Year	$	**1,134,388**	$	1,184,592
Accretion		**36,934**		53,089
Change in reclamation estimate		**(34,578)**		(103,293)
Balance – End of Year	$	**1,136,744**	$	1,134,388

The Company has estimated its MAX Molybdenum mine future site restoration costs to be $1,313,403 and estimates the most likely date for the reclamation to be initiated as May 2016. The reclamation amount has been discounted by a rate of 0.75% on the first $730,000 and 7.75% on the remaining balance of $583,403. Other property retirement obligations of $21,600 have been estimated by management and are recorded undiscounted due to the uncertainty in forecasting ultimate closure dates.

It is possible the Company's estimate of its ultimate reclamation, site restoration and closure liability could materially change due to possible changes in laws and regulations or changes in cost estimates.

9. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are as follows:

a) During the year ended August 31, 2011, per-diem consulting fees of $NIL (2010 - $19,500) were paid or accrued to a director of the Company.

b) During the year ended August 31, 2011, the Company was reimbursed for rent and office expenses totalling $39,042 (2010 - $43,926) by a company with common management.

c) During the year ended August 31, 2011, the Company's CFO provided various short–term, non-interest bearing loans to the Company which at August 31, 2011 stood at $200,000 (2010 - $Nil).

d) As at August 31, 2011, current liabilities include $260,494 (2010 - $117,600) payable to related parties.

These transactions were incurred in the ordinary course of business (except as noted in 9c), are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agreed to by the related parties.

10. Income Taxes

a) Reconciliation of income taxes at statutory rates with the reported taxes is as follows:

		Year Ended August 31, 2011		Year Ended August 31, 2010
Loss before income taxes	**$**	**(22,149,235)**	$	(2,846,496)
Canadian federal and provincial income tax rate		**27.17%**		29.00%
Income tax recovery based on above rates		**(6,017,947)**		(825,484)
Increase (decrease) due to:				
Change in valuation allowance		**7,971,269**		-
Increase in valuation allowance with respect to BC mineral taxes		**(2,363,058)**		-
Share issuance costs		**(68,137)**		-
Non-deductible expenses for tax purposes		**970**		133,048
Statutory tax rate change and other		**476,903**		536,969
BC Mineral tax		**-**		(35,390)
Write-down of future income tax asset[1]		**1,515,643**		11,584,037
Income tax expense (recovery)	**$**	**1,515,643**	$	11,393,180
Consists of:				
Current BC Mineral tax expense	**$**	**-**	$	(105,651)
Write-down of future income tax asset		**1,515,643**		11,584,037
Future income and BC Mineral tax recovery		**-**		(85,206)
	$	**1,515,643**	$	11,393,180

Note 1: At August 31, 2010 and in light of ongoing operational difficulties at the MAX Molybdenum mine, the Company determined that a portion of its previously recognized future income tax assets was no longer more likely than not recoverable, resulting in a future income tax expense of $11,584,037 in the consolidated statement of operations and loss. At August 31, 2011, in light of lower grades being received at the mill and subsequent suspension of operations, the Company determined that the carrying value of the remaining tax asset of $1,515,643 should be reduced to nil.

b) The significant components of future income and BC Mineral taxes are as follows:

		August 31, 2011		August 31, 2010
Future income and mineral tax assets				
Non-capital loss carry forwards	**$**	**2,133,956**	$	1,323,676
Share issue costs		**75,068**		154,785
Resource property costs		**3,378,827**		1,636,068
Property, plant and equipment		**14,818,578**		9,310,839
Other		**299,018**		301,831
Asset retirement obligation		**392,913**		392,093
Total future income and mineral tax assets		**21,098,360**		13,119,292
Valuation Allowance		**(21,085,017)**		(11,598,105)
Net future income and mineral tax assets	**$**	**13,343**	$	1,521,187
Future income and mineral tax liabilities				
Inventory	**$**	**13,343**	$	5,544
Total future income and mineral tax liabilities	**$**	**13,343**	$	5,544
Net Future income and mineral tax asset	**$**	**-**	$	1,515,643

10. Income Taxes - *continued*

c) The Company has non-capital losses for tax purposes of $8,530,999 that may be available to offset future taxable income. These loss carry-forwards expire as follows:

		Amount
2020	$	40,198
2026		218,077
2027		648,297
2028		701,832
2029		763,210
2030		877,285
2031		5,282,100
	$	8,530,999

11. Commitments

a) The Company has signed a lease agreement for the rental of office space. The lease was renewed in August 2008 and now ends on September 30, 2013. The future minimum lease obligations are as follows:

		Amount
2011	$	72,744
2012		75,573
2013		78,372
	$	226,689

12. Financial Instruments

a) **Fair Values**

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "*Held-for-Trading"* and recorded at fair value with changes in fair value recorded in net income;
- Marketable securities and reclamation bond amounts are classified as *"Available-for-Sale"* and recorded at fair value with temporary changes in fair value recorded in other comprehensive income;
- Receivables are classified as *"Loans and Receivables".* These financial assets are recorded at values that approximate their amortized cost using the effective interest method; and
- Accounts payable, accrued liabilities, due to related parties and other long term liabilities are classified as *"Other Financial Liabilities"*. These financial liabilities are recorded at amortized cost using the effective interest method.

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

12. Financial Instruments – *Continued*

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.

The carrying amounts of financial instruments approximate fair value as of August 31, 2011 as shown below:

Financial Assets	**Fair Value Hierarchy Level**		**Carrying and Fair Values**
Cash and cash equivalents	**2**	$	12,096
Reclamation bonds	**2**	$	752,900
Trade accounts receivable	**N/A**	$	367,591
Financial Liabilities			
Accounts payable and accrued liabilities	**N/A**	$	2,160,984
Due to related parties	**N/A**	$	260,494
Other long term liabilities	**N/A**	$	4,943

The fair values of the Company’s trade accounts receivable, accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of embedded derivatives is included in trade accounts receivable *(Note 12b-vi).*

b) **Financial Risk Management**

The Company is exposed to potential loss from various risks including credit risk, foreign exchange risk, interest rate risk, liquidity risk, market risk and commodity price risk.

i) Credit Risk

A concentration of credit risk in trade accounts receivable resides with the Company’s only customer in the United Kingdom. Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company’s maximum exposure to credit risk is the carrying value of its cash and cash equivalents and accounts receivables.

ii) Foreign Exchange Risk

The Company's revenues from the production and sale of molybdenum are denominated in US dollars however the Company's operating expenses are incurred primarily in Canadian dollars and its liabilities are denominated primarily in Canadian dollars and to a minor extent US dollars and Mexican pesos. Consequently, the Company's operations are subject to currency translation risk. The operating results and the financial position of the Company are reported in Canadian dollars.

The fluctuation of the US dollar and Mexican peso in relation to the Canadian dollar will, consequently, have an impact upon the reported profitability of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

12. Financial Instruments – *Continued*

At August 31, 2011, the Company's financial assets held in US dollars and Mexican pesos were:

		stated in $US		stated in $MX
Cash and cash equivalents	$	2,242	$	3,081
Trade Receivables		371,757		-
Total	$	373,999	$	3,081

At August 31, 2011, the Company's financial liabilities held in US dollars and Mexican pesos were:

		stated in $US		stated in $MX
Accounts payable and accrued liabilities	$	75,987	$	-
Total	$	75,987	$	-

The fluctuation of the US dollar and Mexican peso in relation to the Canadian dollar will, consequently, have an impact upon the reported profitability of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. With other variables unchanged, each $0.10 strengthening (weakening) of the US dollar against the Canadian dollar would result in a decrease (increase) of approximately $33,000 in net loss respectively for year ended August 31, 2011. Variations in the Mexican peso would result in an insignificant change in net loss for year ended August 31, 2011.

iii) Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents and reclamation bonds. Generally, the Company’s interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company’s net loss for the year ended August 31, 2011.

iv) Liquidity Risk

The Company is exposed to significant liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. Additional information regarding liquidity risk is disclosed in Note 1.

v) Pledged Financial Assets

The Corporation has financial assets that are pledged for reclamation obligations. Reclamation deposits are maintained to satisfy the Corporation’s obligation for future reclamation expenditures at its MAX mine site and various exploration properties.

vi) Market and Commodity Price Risk

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities, most significantly molybdenum, can not only adversely affect operating results, but may also affect the Company’s ability to raise capital to fund its ongoing exploration, development or mining activities. The Company does not currently enter into forward contracts for any of its production.

12. Financial Instruments – *Continued*

The Company's metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of final settlement using currently available market information. As a result, the values of concentrate receivables change as the underlying commodity market prices vary. This component of the contract is an embedded derivative, which is recorded at fair value with changes in fair value recorded in revenue.

At August 31, 2011, the fair value of the embedded derivative in the provisionally priced sales agreement was a debit of US$10,397 (2010- Cr.$189,591) or Cdn$10,189 (2010-Cr.$197,175). Sales and receivables for the year ended August 31, 2011 have been adjusted to reflect this embedded derivative.

13. Capital Risk Management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Company considers the components of shareholders' equity, as well as its cash and equivalents as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue equity, sell assets, or return capital to shareholders as well as issue or repay debt. The Company is not subject to externally-imposed capital requirements.

The Company invests its cash with commercial banks in short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

There were no changes to the Company's approach to capital management during the year ended August 31, 2011. As at August 31, 2011, the Company had no foreign currency hedges or commodity hedges in place, and consequently, hedge accounting is not used.

Additional information regarding capital risk is disclosed in Note 1.