



**ROCA MINES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(FORM 51-102F1)**

**YEAR ENDED AUGUST 31, 2011**

**December 23, 2011**



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**YEAR ENDED AUGUST 31, 2011**

### Date of Report

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and related notes thereto for the years ended August 31, 2011 and August 31, 2010, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

This MD&A is prepared as of December 23, 2011. All amounts in the consolidated financial statements and this MD&A are expressed in Canadian dollars, unless otherwise indicated.

### Description of Business

Roca Mines Inc. (the "Company") engages principally in the exploration, development and mining of resource properties in North America. The Company's wholly-owned subsidiary Minera ROK, S.A. de C.V. will hold the Company's property interests in Mexico, if any, and the Company's wholly-owned subsidiary, FortyTwo Metals Inc., operates the MAX Molybdenum mine southeast of Revelstoke British Columbia, a producer of molybdenite concentrates exported under the terms of an offtake agreement. The MAX Molybdenum Mine is currently on temporary shutdown status because of ongoing operational difficulties and lower than targeted head grades being received at the mill.

### Selected Annual Financial Results

The information below has been extracted from the Company's annual audited consolidated financial statements.

	<b>Year Ended August 31, 2011</b>	Year Ended August 31, 2010	Year Ended August 31, 2009
Total revenues	\$ 1,773,845	\$ 17,649,841	\$ 25,959,489
Net loss	\$ (23,664,878) <sup>1</sup>	\$ (14,239,676) <sup>2</sup>	\$ (18,448,087) <sup>3</sup>
Net loss per share	\$ (0.21)	\$ (0.15)	\$ (0.21)
Total assets	\$ 12,062,769	\$ 30,081,281	\$ 41,714,914
Total long term debt	\$ Nil	\$ Nil	\$ Nil

Notes:

- 1) The loss for the year ended August 31, 2011 includes a write-down of \$17,419,986 in plant and equipment and \$1,515,643 in future income tax assets.
- 2) The loss for the year ended August 31, 2010 includes non-cash stock-based compensation of \$532,190 and a write-down of \$11,584,037 in future income tax assets.
- 3) The loss for the year ended August 31, 2009 includes non-cash stock-based compensation of \$404,148, amortization, depletion and accretion of \$36,765,811 and future income tax recovery of (\$11,037,243).



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**Summary of Quarterly Results (unaudited)**

	<b>Aug. 31, 2011</b>	<b>May 31, 2011</b>	<b>Feb. 28, 2011</b>	<b>Nov. 30, 2010</b>
Revenues (adjustments)	920,217	Nil	(8,051)	861,679
Net income (loss)	(20,395,298) <sup>1</sup>	(996,984)	(933,920)	(1,338,676)
Net income (loss) per share	(0.16)	(0.01)	(0.01)	(0.01)
Total assets	12,062,769	30,692,875	29,223,604	30,194,862
Total long term debt	Nil	Nil	Nil	Nil

	<b>Aug. 31, 2010</b>	<b>May 31, 2010</b>	<b>Feb. 28, 2010</b>	<b>Nov. 30, 2009</b>
Total revenues	4,239,642	6,277,773	4,055,486	3,076,940
Net income (loss)	(12,354,804) <sup>2</sup>	(11,833)	(507,197)	(1,365,842)
Net income (loss) per share	(0.13)	(0.01)	(0.01)	(0.02)
Total assets	30,081,281	41,331,684	41,168,262	40,178,567
Total long term debt	Nil	Nil	Nil	Nil

Notes:

- 1) The loss for the quarter ended August 31, 2011 includes a write-down of \$17,419,986 in plant and equipment and \$1,515,643 in future income tax assets.
- 2) The loss for the quarter ended August 31, 2010 includes non-cash stock-based compensation of \$532,190 and a write-down of \$11,584,037 in future income tax assets.

**Quarter Ended August 31, 2011**

During the three months ended August 31, 2011, the Company recorded revenues of \$920,217 and a loss of \$20,395,298 compared to \$4,239,642 in revenues and a net loss of \$12,354,804 in the fourth quarter of the prior fiscal year. In light of continuing grade control issues at the MAX Molybdenum mine, the value of certain future income tax assets was considered not to be recoverable. Therefore, the Company wrote-off a total of \$11,584,037 in future income tax assets during the quarter ended August 31, 2010 and \$1,515,643 during the most recent quarter ended August 31, 2011. Also during the quarter ended August 31, 2011, the Company considered the plant and equipment associated with the MAX Molybdenum mine to be impaired and wrote-off a total of \$17,419,986 down to the plant and equipment's estimated net recoverable amount.

**Results of Operations**

During the year ended August 31, 2011, the Company recorded production revenues of \$1,773,845 and a net loss of \$23,664,878 compared to revenues of \$17,649,841 and a net loss of \$14,239,676 for fiscal 2010. In the current year, the Company milled less than 15% of 2010 throughput and wrote off \$17,419,986 (2010 – Nil) in plant and equipment and \$1,515,643 (2010 - \$11,584,037) in future income tax assets because of significant ongoing operational difficulties at the MAX Molybdenum mine.

The Company had positive operating cash flow of \$2,661,724 in 2010, while in 2011 the Company had negative operating cash flows of \$5,383,421 because of the significant downtime at MAX, lower head grades and lower realized molybdenum prices. Proceeds from financing activities of \$7,432,452 (2010 - \$535,493) were invested in mine development and significant underground maintenance and repairs. General and administrative expenses have decreased by approximately 20% over 2010, reflecting the Company's cost-cutting initiatives while the MAX Molybdenum mine's performance suffered from various events in 2010 and 2011.

**MAX Molybdenum Mine**

Through its wholly-owned subsidiary, FortyTwo Metals Inc., the Company holds a 100% interest in the MAX Molybdenum mine located approximately 60 kilometres southeast of Revelstoke, B.C.



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*Resource Estimate*

A resource estimate completed in September of 2004 in compliance with the CIM Standards stipulated by National Instrument 43-101 of the Canadian securities commissions is summarized below:

Cutoff % MoS <sub>2</sub>	MEASURED		INDICATED		MEASURED & INDICATED	
	Tonnes	Grade % MoS <sub>2</sub>	Tonnes	Grade % MoS <sub>2</sub>	Tonnes	Grade % MoS <sub>2</sub>
0.10	27,870,000	0.21	15,070,000	0.18	42,940,000	0.20
0.20	9,340,000	0.35	2,010,000	0.41	11,350,000	0.36
0.50	1,010,000	1.01	370,000	0.77	1,380,000	0.94
1.00	260,000	1.95	20,000	1.87	280,000	1.95

Note: In addition to the above measured and indicated resources, inferred resources total 8,900,000 tonnes averaging 0.16% MoS<sub>2</sub> at the 0.10 cut-off, including 460,000 tonnes averaging 0.33% at the 0.20 cut-off. To convert molybdenite (MoS<sub>2</sub>) values to molybdenum (Mo) value, divide MoS<sub>2</sub> by 1.6681 (e.g. 1% MoS<sub>2</sub> = 0.60% Mo).

*Production Results*

In 2008, the Company announced that it had achieved its commercial production targets at its MAX Molybdenum mine located in BC, Canada. The mine became BC's first new metal mine in a decade and the newest primary molybdenum mine in Canada.

Revenues of \$1,773,845 for the year ended August 31, 2011 result from shipments totalling 141,794 lbs of contained molybdenum and final or estimated pricing at period-end. The Company sells its concentrates to a UK-based buyer with final sales revenues based on average prevailing molybdenum oxide prices in periods subsequent to delivery. The Company has no hedging program nor has it sold forward any of its production.

The MAX Molybdenum mine had a sustained shutdown during fiscal 2011 due to ground instability that occurred in September of 2010. During the year, crews have conducted rehabilitation work and geotechnical investigations to assess conditions and plan new mining activities. A revised mine plan was then prepared with the aim of isolating all future production from the stopeing areas that caused various production delays. In addition to rehabilitation and general maintenance at the site, a geotechnical program to survey the existing stope and mapping of other workings has been completed. This final step in the mine's rehab program allowed for monitoring of the new 750 sill pillar and of the 830 level rib pillar on a daily basis, these two areas being of primary interest once production resumed in July 2011.

Once underground operations recommenced, crews were focused on new blasting designs and practices in an effort to demonstrate that previous experiences with wall sloughing, geotechnical stability, and head-grade dilution could be controlled. Those efforts succeeded in producing very good wall conditions and control. It became apparent that previous blasting practices caused unnecessary damage, including excess dilution, ultimately leading to the stope operating problems described previously.

Given oxide prices in the US\$14 range, and the historically high Canadian dollar, labour and energy costs, the Company was forced to place the operation on temporary shutdown status. While management remains enthusiastic about the molybdenum resource contained at the MAX Mine and other zones within the deposit that may contain better grades, the operation was not sustainable under current economic conditions and mine production was suspended after the remaining 725L stope material was processed in October.

The MAX Molybdenum mine was initially planned as a small high-grade mine that would expand production over time from internal cash flow, ultimately lowering unit costs. While a significant amount of work and investment has been completed towards the permitted Phase II 1,000 tpd operation, these throughput rates have yet to be achieved and therefore those lower unit costs have not been realized.



### *Phase II Expansion Project*

The flexibility to expand the MAX operation has been a key objective of the Company since the project was initially conceived and much of management's early planning aimed to preserve the opportunity to build a sustainable, long-life mine from the known resource.

The Company's wholly owned subsidiary, FortyTwo Metals Inc., received an amendment to its operating permit in April of 2010, approving an increase in production to Phase II, 1,000-tonne-per-day throughput rate. The approval was a milestone for the MAX Molybdenum mine and British Columbia's mining industry. MAX is the first new operating B.C. metal mine to be permitted since the Huckleberry mine in 1997.

Roca's management and consultants continue to evaluate various project alternatives towards reaching the Phase II expansion targets of the operation. The evaluation includes updating capital cost estimates for additional mining equipment, installation of a backfill system, additional underground development and completing expansion of the existing mill complex. A capital plan to resume production at higher throughput levels and lower unit costs is being refined as of the date of this report. Management believes this could allow for a sustainable operation at current grades and molybdenum oxide prices, while also preserving the opportunity to benefit from any increase in molybdenum prices in the future.

### *MAX Property Exploration*

Deferred exploration costs for the MAX project represent costs incurred in the search for new ore bodies including a deep molybdenum porphyry target below the existing MAX mine mineralization, the "North molybdenum biogeochemical target" and the "Ridge Tungsten Zone". While the Company did not expend funds on these projects during fiscal 2010 or 2011, management looks forward to resuming exploration on all three exploration zones at the MAX project (for tungsten and molybdenum) as soon as financial resources permit.

In 2009, the Company's Exploration Advisory Board met at the MAX Mine with management and mine technical staff. The Exploration Advisory Board made several observations and conclusions that reflect the exploration potential of high-grade targets that occur close to existing underground development and the potential of a larger-scale porphyry deposit at depth. The two target types have different implications for the future of the MAX mine.

The identification of new higher-grade zones will, if defined, add to the total high-grade tonnes available to the mine in the near-term, effectively increasing the mine life beyond the planned expansion life, whereas the identification of a larger porphyry system at depth could offer significant opportunities for larger mine development beyond the scale of planned operations.

The carrying value of grass-roots exploration expenditures at MAX totalled \$976,313 at August 31, 2011 (net of tax credits).

### *Foremore VMS-Gold Project*

The Company holds a 100% interest in the Foremore VMS-Gold project situated in the "Golden Triangle" one of the most active mining and exploration areas in north-western British Columbia. The property comprises 65 contiguous mineral claims totaling 23,609 hectares in the Liard Mining Division. Significant operations in the area include Barrick Gold's legendary Eskay Creek Mine, Cominco's historic Snip Mine and NovaGold's and Teck Resource's Galore Creek Project. The Foremore project was explored by Cominco Limited between 1989 and 1996. The Company's exploration efforts at Foremore date back to the summer of 2002. Capitalized acquisition and exploration expenditures on the Foremore Project to August 31, 2011 totalled \$6,624,217 (net of tax credits).

### *SeaGold Property*

The Company holds a 50% interest in the SeaGold Project, comprising 8 claim blocks of 4,000 hectares, centered on a number of gold and copper occurrences approximately 35 km north of Barrick Gold's Eskay



Creek gold/silver mine in BC. The balance of the property interest is now held by Romios Gold Resources Inc. ("Romios"). Romios serves as the operator of a 50:50 joint venture on the SeaGold project.

### **Liquidity, Financial Position and Going Concern**

The viability of the Company's future operations is dependent on future financing. The Company's audited 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 significantly lower than expected grades. Continuing operations as a going concern are dependent upon management's ability to reactivate the mine, reduce costs 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 to explore, expand throughput capability and ultimately reopen the mine. Although management has been successful in the past, there is no assurance that these initiatives will be successful in the future.

### **Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities, reclamation deposits, accounts payable and accrued liabilities, amounts due to related parties and other long term liabilities.

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;
- 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:

- 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:





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<b>Financial Assets</b>	<b>Fair Value Hierarchy Level</b>		<b>Carrying and Fair Values</b>
Cash and cash equivalents	2	\$	12,096
Reclamation bonds	2	\$	752,900
Trade accounts receivable	N/A	\$	367,591
<b>Financial Liabilities</b>			
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 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.

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 in Canadian dollars and its liabilities are denominated primarily in Canadian dollars and to a lesser 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. 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 for the year ended August 31, 2011. Variations in the Mexican peso would result in an insignificant change in net loss for the 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 earnings.

*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. At August 31, 2011, cash and cash equivalents stood at \$12,096 and liquidity risk





should be considered very high because of volatility in the commodity markets and general uncertainty in the world economy. See *Liquidity and Financial Position* for further information on liquidity risk.

*v) Pledged Financial Assets*

The Corporation has financial assets that are pledged for reclamation obligations. Reclamation deposits are generally invested in GICs with one year maturities and 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.

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).

### **Critical Accounting Estimates**

The Company's accounting policies are described in Note 2 to the annual consolidated financial statements. The preparation of these financial statements in conformity with generally accepted accounting policies requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. The estimates made in applying the policies below can be uncertain and a change in these estimates could materially impact the financial statements.

### ***Resource Property Costs, Property Plant and Equipment***

Resource property costs and property, plant and equipment usually represent the most significant assets of the Company. The costs associated with resource costs and/or property, plant and equipment include acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. These costs are capitalized on an individual project basis. If production commences, these costs would be amortized over the estimated life of mine on a unit of production basis. Unrecoverable costs for projects determined to be commercially not feasible are expensed in the year in which the determination is made or when the project is allowed to lapse, abandoned or determined to be impaired. The Company's management regularly reviews the carrying value of the Company's mineral properties. Where information is available, and conditions suggest impairment, estimated future net cash flows from each property are calculated using estimated future prices, proven and probable reserves, and operating and capital costs on an undiscounted basis. An impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of each property, with a corresponding charge to operations, are recorded to the extent that the estimated future net cash flows on a discounted basis are less than the property carrying value in accordance with CICA Handbook Section 3063, "Impairment of Long-lived Assets". 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 property is written down to its estimated fair value.



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 has written down its investment in the production portion of the project assets to management's best estimate of net realizable value.

Depreciation and depletion is also determined based on property, plant and equipment carrying values. Depreciation and depletion is calculated on the units of production basis over existing mineral reserves or resources. Mineral resources or reserves are an estimate of the quantity of economically recoverable ore and/or mineralization and will change from time to time as a result of additional geological information, actual grade or recoveries different from original estimates or commodity price changes. Pre-production costs at the Company's MAX mine 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 were then amortized over the estimated Phase II mine life on a unit of production basis.

### ***Asset Retirement Obligations***

The Company is subject to various laws governing reclamation of its mine sites and exploration sites. These laws are continually changing and these changes may affect the procedures and costs required to complete reclamation obligations. Estimates of the fair value of these liabilities for asset retirement obligations are recognized in the period they are incurred. A corresponding increase in the related asset is recorded and depreciated over the estimated life of the asset. If the fair value of the liability decreases due to changes in future cash flow estimates, a corresponding decrease in the related asset is recorded. If the reduction exceeds the value of the related asset, the remaining amount is reduced through earnings. Where a related asset is not identifiable with a liability, the change in fair value is charged to earnings in the period. Each period, the liability is increased to reflect the accretion (or interest) portion of the initial fair value estimate and changes in estimated cost and timing of the reclamation procedures.

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 the rate on the posted security bond being 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.

### ***Stock Option and Warrant Valuation***

The determination of the fair value of stock options and warrants issued requires management to estimate future stock volatility, expected life, and a risk-free rate of return. The Company uses historic information to estimate these future variables. Given the change in the Company from an exploration company to emerging producer, historic information may no longer be valid and these estimates could materially impact the consolidated financial statements.

### ***Income and Mining Taxes***

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts and their respective tax bases, and for tax losses and other deductions carried forward. The Company evaluates the carrying values of its future tax assets periodically by assessing its valuation allowance and by adjusting the amount of such valuation allowance in the period, if necessary. A valuation allowance is provided for those tax assets for which it is more likely than not that the related



benefits will not be realized. In determining the amount of the valuation allowance, the Company considers estimated future taxable income as well as feasible tax planning strategies in each jurisdiction. If the Company determines that all or a portion of the future income tax assets will not be realized, a valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company makes a determination that it ultimately will be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or a portion of the related valuation allowance will be reduced with a credit to income tax expense. The determination of the Company's tax expense for the year and its future tax liabilities and assets involves significant management estimation and judgment involving a number of assumptions. In determining these amounts, management interprets tax legislation and makes estimates of the expected timing of the reversal of future tax assets and liabilities. Management also makes estimates of future earnings which affect tax rate assumptions, tax planning strategies and the extent to which potential future tax benefits may be used. The Company is subject to assessments by taxation authorities which may interpret tax legislation differently. These differences may affect the final amount or the timing of the payment of taxes and these differences could be material. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters. 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.

### **New Accounting Developments**

#### *International Financial Reporting Standards ("IFRS")*

The Canadian Accounting Standards Board ("AcSB") has published a strategic plan outlining the convergence of Canadian GAAP with IFRS and determined that publicly-listed companies must adopt IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011.

Based on its review of historical transactions and its current and expected business activities, the Company identified the treatment of exploration costs and asset impairment as areas with the potential to create differences in the Company's financial statements as a result of adopting IFRS. As a result of this initial analysis, the Company expects to continue capitalizing its exploration costs consistent with its current accounting policy. Under Canadian GAAP, mineral property impairment testing is performed by first determining if there is an impairment using an undiscounted cash flow analysis. Given an impairment indicator on that basis, the loss is measured as the amount by which carrying value exceeds fair value using a discounted cash analysis. However, under IFRS, assets are both tested and measured for impairment using a discounted cash flow analysis. IFRS also allows the reversal of impairment charges from previous years if the fair value exceeds the carrying value of long-lived assets.

Management's IFRS changeover plan involves a scoping and planning phase, an assessment and evaluation phase, and an implementation phase. Management has now generally completed the first phase having identified and prioritized areas of difference between Canadian GAAP and IFRS.

As part of its assessment and evaluation phase, management is analyzing the various exemptions available for the purpose of determining which, if any, it will elect to apply upon adoption of IFRS. The key personnel involved in the development and execution of the implementation phase have undergone preliminary training with more planned for the upcoming year. While assessment and evaluation are ongoing, the adoption of IFRS is not expected to have a significant impact on the Company's information technology and data systems, internal control over financial reporting, disclosure controls and procedures, investor relations, and financial reporting personnel.

While the Company has performed its initial review of IFRS as of the date of this report, the full financial reporting impact of the transition to IFRS has not been determined at this time. The Company's assessment of differences between Canadian GAAP and IFRS is based on known standards at the date of this report, and the Company's current and expected future business activities. Changes in standards, and future business activities could lead to differences in the Company's financial statements and related



disclosures under Canadian GAAP and IFRS. Those changes could have material effects on the Company's initial analysis as discussed above.

### **Related Party Transactions**

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. Also 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. 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. 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, 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.

### **Risks and Uncertainties**

The Company's financial success will be dependent upon the extent to which it can discover mineralization or acquire mineral properties and the economic viability of developing its properties. The Company competes with many companies possessing greater financial resources and technical facilities than itself. The market price of minerals and/or metals is volatile and cannot be controlled. There is no assurance that the Company's mineral exploration and development activities will be successful. The development of mineral resources involves many risks in which even a combination of experience, knowledge and careful evaluation may not be able to overcome. All of the Company's short to medium term operating, exploration and development cash flow must be derived from cash flows from the Company's single operating mine or from external sources of financing. Actual funding may vary from what is planned due to a number of factors including mine performance, commodity prices, and the progress of exploration and development on its current properties. Should changes in commodity and equity market conditions prevent the Company from obtaining additional financing, the Company will need to review its development and exploration plans to prioritize project expenditures based on funding availability.

Developing mineral deposits is subject to various risks and is dependent on a number of criteria, including the deposit size, grade, proximity to infrastructure, as well as commodity prices. While management believes that the grade and quantity of the high-grade measured and indicated molybdenite resource (280,000 tonnes of 1.95% MoS<sub>2</sub> at a 1% cut-off grade within 1,380,000 tonnes of 0.94% MoS<sub>2</sub> at a 0.5% cut-off) at the MAX project may be sufficient to justify mining and production, no feasibility study has been completed and therefore these resources can not be considered mineable reserves.

### **Share Capital**

During the year ended August 31, 2011, the Company completed a private placement for gross proceeds of \$2.5 million through the issuance of 10 million units at a price of \$0.25 per unit. Each unit consisted 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 Company also closed a private placement for gross proceeds of \$5.1-million through the issuance of 20.4 million units at a price of \$0.25 cents per unit. Each unit issued consisted of one common share and one-half of a common share purchase warrant. Each full warrant entitles the holder to purchase an additional common share of the company at a price of \$0.30 through November 12, 2011. A total of \$223,000 in cash was paid and 1,248,800 agent warrants were issued in connection with this financing, the agent warrants also exercisable through November 12, 2011, at \$0.30 per common share.

During the year ended August 31, 2011, a total of 925,000 incentive stock options expired following the resignation of a director, employees and upon cancellation of certain consulting contracts. A further



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3,705,000 options were voluntarily forfeited by directors, employees and consultants leaving nil options outstanding at August 31, 2011.

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 the same year, a total of 300,000 warrants were exercised for proceeds of \$105,000 and a total of 8,220,000 and 26,730 agent warrants expired unexercised. Subsequent to August 31, 2011, 10,200,000 warrants and 1,248,800 agent warrants expired unexercised.

Common shares and convertible securities outstanding at August 31, 2011 and at the date of this report are:

<b>Security</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Common Shares on Exercise</b>
Common Shares	-	-	123,864,898
Warrants	May 9, 2012	\$0.30	5,000,000
Total (fully-diluted)			128,864,898

#### **Legal Claims and Contingent Liabilities**

At August 31, 2011, there were no material legal claims or contingent liabilities outstanding.

#### **Off-balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

#### **Outlook**

It remains management's belief that molybdenum prices should remain significantly greater than historic values for the foreseeable future due to global production problems, increasing capital costs, and the inability of new mines to achieve project financing. Recent global events have seriously eroded the supply of financing and new mine development, and management believes that a realization of supply and demand fundamentals in the medium-term will result in positive changes to pricing. It is therefore management's goal to continue to explore its various exploration interests and to eventually re-start production at the MAX Molybdenum mine at its permitted 1000 tpd throughput rate. This will ultimately reduce unit costs and preserve the opportunity to produce concentrates in an appreciating price environment.

#### ***Molybdenum and the Molybdenum Market***

Molybdenum's attributes include its high heat strength, hardness, corrosion resistance and chemical qualities rendering it vital in a variety of industrial applications. "Moly" is used primarily as an alloy in specialty steels including numerous applications within the energy industry used to discover (drilling equipment), deliver (pipelines) and clean (de-sulphurization catalyst) various petroleum products. Many analysts have embraced the notion that with increases in future demand for molybdenum and molybdenum products, the potential exists for sustained higher moly prices.

For the past three years, molybdenum oxide prices have been volatile, ranging from approximately \$8.00 to \$18.00 on relatively low demand. Prior to that, molybdenum prices had remained robust for 4 years at over US\$20/lb. Analysts have projected demand growth for molybdenum at rates of approximately 4% to 6% per year with the supply market constrained by very few significant new operations. Elevated capital costs coupled with challenges in the ability to secure timely financing to develop new mining operations may also extend the horizon for robust molybdenum prices to the benefit of existing producers.



### **Additional Information**

Additional information is available for viewing at the Company's website [www.rocamines.com](http://www.rocamines.com) or on the SEDAR website [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Information**

This management discussion and analysis contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, amongst other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company's properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties, and assumptions. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change except as required by law. These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the transactions described herein, the ability of the Company and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.