



**ROCA MINES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2012 and 2011**

**(Expressed in Canadian Funds)**



December 27, 2012

## **Independent Auditor's Report**

### **To the Shareholders of Roca Mines Inc.**

We have audited the accompanying consolidated financial statements of Roca Mines Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at August 31, 2012, August 31, 2011 and September 1, 2010 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended August 31, 2012 and August 31, 2011, 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 International Financial Reporting Standards, 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 audit 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.

We believe that the audit evidence we have obtained in our audits 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. and its subsidiaries as at August 31, 2012, August 31, 2011 and September 1, 2010 and its financial performance and its cash flows for the years ended August 31, 2012 and August 31, 2011 in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying our opinion we draw attention to Note 1 *Nature of Operations and Going Concern* in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Roca Mines Inc.'s ability to continue as a going concern.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

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*PricewaterhouseCoopers LLP*

*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](http://www.pwc.com/ca)

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

# Roca Mines Inc.

## Consolidated Statements of Financial Position

Canadian Funds

	August 31, 2012	August 31, 2011 (Note 15)	September 1, 2010 (Note 15)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 1,775	\$ 12,096	\$ 162,357
Accounts receivable	4,995	551,988	1,100,161
Prepaid expenses and deposits	23,425	152,495	80,170
Due from related party	9,284	-	-
Inventories (Note 5)	83,430	565,951	548,010
Marketable securities	-	-	7,500
	<u>122,909</u>	<u>1,282,530</u>	<u>1,898,198</u>
<b>Exploration and Evaluation Assets</b> (Note 6)	<b>6,769,839</b>	<b>7,559,802</b>	<b>7,401,432</b>
<b>Property, Plant and Equipment</b> (Note 7)	<b>2,053,670</b>	<b>2,399,558</b>	<b>16,443,797</b>
<b>Reclamation Bonds</b> (Note 9)	<b>752,900</b>	<b>752,900</b>	<b>758,900</b>
<b>Deferred Income Tax Assets</b>	<b>-</b>	<b>-</b>	<b>1,515,643</b>
	<u>9,576,409</u>	<u>10,712,260</u>	<u>26,119,772</u>
	<b>\$ 9,699,318</b>	<b>\$ 11,994,790</b>	<b>\$ 28,017,970</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 2,921,496	\$ 2,160,984	\$ 4,095,997
Due to related parties (Note 11d)	767,929	260,494	117,600
	<u>3,689,425</u>	<u>2,421,478</u>	<u>4,213,597</u>
<b>Asset Retirement Obligations</b> (Note 10)	<b>1,335,002</b>	<b>1,136,744</b>	<b>1,134,388</b>
<b>Other Long Term Liabilities</b>	<b>-</b>	<b>4,943</b>	<b>13,766</b>
	<u>5,024,427</u>	<u>3,563,165</u>	<u>5,361,751</u>
<b>EQUITY</b>			
<b>Share Capital</b> (Note 8a)	<b>56,862,888</b>	<b>56,862,888</b>	<b>50,132,397</b>
<b>Contributed Surplus</b> (Note 8d)	<b>13,543,304</b>	<b>13,543,304</b>	<b>12,841,343</b>
<b>Accumulated Other Comprehensive Loss</b>	<b>-</b>	<b>-</b>	<b>(12,500)</b>
<b>Deficit</b>	<u>(65,731,301)</u>	<u>(61,974,567)</u>	<u>(40,305,021)</u>
	<u>4,674,891</u>	<u>8,431,625</u>	<u>22,656,219</u>
	<b>\$ 9,699,318</b>	<b>\$ 11,994,790</b>	<b>\$ 28,017,970</b>

Nature of Operations and Going Concern (Note 1)

ON BEHALF OF THE BOARD:

"Scott Broughton", Scott E. Broughton, Director

"David Skerlec", David J. Skerlec, Director

- See Accompanying Notes -

# Roca Mines Inc.

## Consolidated Statements of Loss

For the Years Ended August 31

Canadian Funds

	2012	2011 (Note 15)
<b>Revenues</b>	<b>\$ 2,005,743</b>	<b>\$ 1,773,845</b>
<b>Cost of Sales</b>		
Operating expenses	2,381,635	2,987,272
Depletion, amortization	8,230	206,173
<b>Mining Loss</b>	<b>(384,122)</b>	<b>(1,419,600)</b>
<b>Expenses</b>		
Loss on impairment of exploration and evaluation assets (Note 6)	1,274,974	-
General and administrative	1,072,591	1,000,494
Mine holding costs (Note 7)	893,450	2,457,224
Write-down of property, plant and equipment (Note 7)	606,924	15,424,654
Tax credit on abandoned property	-	(199,073)
Gain on disposal of property, plant and equipment	(499,142)	(201)
<b>Loss from Operations</b>	<b>(3,732,919)</b>	<b>(20,102,698)</b>
<b>Other Income (expenses)</b>		
Finance expense	(27,175)	(36,934)
Foreign exchange loss	(5,391)	(18,978)
Loss on sale of marketable securities	-	(1,775)
Interest income	8,751	6,482
<b>Loss Before Taxes</b>	<b>(3,756,734)</b>	<b>(20,153,903)</b>
<b>Income and Mining Tax Provision (Note 12)</b>		
Current tax	-	-
Deferred tax	-	1,515,643
	-	1,515,643
<b>Net Loss for the Year</b>	<b>\$ (3,756,734)</b>	<b>\$ (21,669,546)</b>
<b>Net Loss per Share - Basic and Diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.17)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>123,864,898</b>	<b>112,877,501</b>

# Roca Mines Inc.

## Consolidated Statements of Comprehensive Loss

For the Years Ended August 31

Canadian Funds

	2012	2011 (Note 15)
<b>Net Loss for the Year</b>	<b>\$ (3,756,734)</b>	<b>\$ (21,669,546)</b>
Disposition of marketable securities	-	12,500
<b>Comprehensive Loss for the Year</b>	<b>\$ (3,756,734)</b>	<b>\$ (21,657,046)</b>

- See Accompanying Notes -

**Roca Mines Inc.**  
**Consolidated Statements of Changes in Equity**

*Canadian Funds, except share amounts*

	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comp. Loss	Deficit	Total
		\$ (Note 15)	\$ (Note 15)	\$ (Note 15)	\$ (Note 15)	\$ (Note 15)
<b>Balance as at September 1, 2010</b>	93,164,898	50,132,397	12,841,343	(12,500)	(40,305,021)	22,656,219
Issued for cash during the year:						
Private placement of units	30,400,000	6,926,179	673,821	-	-	7,600,000
Exercise of warrants	300,000	105,000	-	-	-	105,000
Transfer on exercise of warrants	-	25,412	(25,412)	-	-	-
Unit issuance costs	-	(324,224)	51,676	-	-	(272,548)
Share issuance costs on warrant exercise	-	(1,876)	1,876	-	-	-
Loss for the year	-	-	-	-	(21,669,546)	(21,669,546)
Other comprehensive loss	-	-	-	12,500	-	12,500
<b>Balance as at August 31, 2011</b>	123,864,898	56,862,888	13,543,304	-	(61,974,567)	8,431,625
Loss and comprehensive loss for the year	-	-	-	-	(3,756,734)	(3,756,734)
<b>Balance as at August 31, 2012</b>	123,864,898	56,862,888	13,543,304	-	(65,731,301)	4,674,891

- See Accompanying Notes -

# Roca Mines Inc.

## Consolidated Statements of Cash Flows

For the Years Ended August 31

Canadian Funds

	2012	2011 (Note 15)
<b>Operating Activities</b>		
Loss for the year	\$ (3,756,734)	\$ (21,669,546)
Less: Items not affecting cash:		
Deferred income tax expense	-	1,515,643
Amortization, depletion, accretion	56,547	270,581
Loss on impairment of exploration and evaluation assets	1,274,974	
Write-down of property, plant and equipment	606,924	15,424,654
Write-down of inventory	70,543	373,571
Write-down of tax account receivable	31,665	-
Loss on sale of marketable securities	-	1,775
Gain on disposal of property, plant and equipment	(499,142)	(201)
Changes in non-cash working capital items:		
Accounts receivable	465,984	362,488
Inventory	392,132	(353,116)
Prepaid expenses and deposits	112,315	(55,570)
Due from related party	(9,284)	-
Accounts payable, accrued liabilities, due to related party	1,163,383	(1,054,627)
	<b>(90,693)</b>	<b>(5,184,348)</b>
<b>Investing Activities</b>		
Marketable securities	-	18,225
Purchase of property, plant and equipment	(257,384)	(2,171,797)
Proceeds from disposals of property, plant and equipment	507,500	-
Resource property costs, <i>net of exploration tax credits</i>	(169,744)	(250,793)
Reclamation bonds refunded	-	6,000
	<b>80,372</b>	<b>(2,398,365)</b>
<b>Financing Activities</b>		
Equity issuance proceeds	-	7,705,000
Equity issuance costs	-	(272,548)
	-	7,432,452
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(10,321)</b>	<b>(150,261)</b>
Cash and cash equivalents - Beginning of year	12,096	162,357
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 1,775</b>	<b>\$ 12,096</b>
<b>Supplemental Schedule of Non-Cash Investing and Financing Transactions</b>		
Plant and equipment expenditures included in accounts receivable	\$ 49,344	\$ 185,685
Plant and equipment expenditures included in accounts payable	\$ (40,440)	\$ (645,069)
Resource property expenditures included in accounts payable	\$ 145,004	\$ (92,423)
Fair value of warrants issued for finance fees	\$ -	\$ 90,804

- See Accompanying Notes -

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 1. Nature of Operations and Going Concern

Roca Mines Inc. (the "Company") is a Vancouver-based resource company listed on the TSX Venture Exchange under the symbol "ROK". The Company's head office is located at Suite 490, 1122 Mainland Street, Vancouver British Columbia Canada, V6B 5L1.

The Company was incorporated on June 19, 2001 as 629645 BC Ltd. and changed its name to Roca Mines Inc. on April 29, 2002. The Company holds interests in exploration properties in British Columbia and 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., has one wholly-owned, inactive subsidiary, 0945798 B.C. LTD. and holds 100% of the MAX Molybdenum Mine southeast of Revelstoke, British Columbia. Production at the MAX Molybdenum Mine has been suspended indefinitely due to low commodity prices and high costs.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis and 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, 2012, the Company reported a loss of \$3,756,734 and an accumulated deficit of \$65,731,301 at that date. The Company had a working capital deficit of \$3,566,516 and cash and cash equivalents at August 31, 2012 amounted to \$1,775. These circumstances lend significant doubt as to the ability of the Company to continue as a going concern.

Exploration at the Company's Foremore project and SeaGold joint venture has been constrained by available funding and the MAX Molybdenum mine has encountered operating difficulties over the past two years. 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 in the capital markets or by sale of assets. 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.

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### 2. Basis of Preparation

#### *(a) Basis of Preparation*

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They have also been applied in preparing an opening IFRS balance sheet at September 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in Note 15. The Board of Directors approved these financial statements on December 27, 2012.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 2. Basis of Preparation - Continued

The consolidated financial statements have been prepared under the historical cost convention, except for marketable securities, and cash flow information.

#### *(b) Critical accounting estimates and judgments*

These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the company has made in the preparation of the financial statements:

#### *Asset Retirement Obligations*

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Significant judgments and estimates are made when estimating the nature and costs associated with asset retirement provisions. When considering the effect of the extended time period over which costs are expected to be incurred, combined with the estimated discount rate and inflation factors, the recorded value of the restoration provisions could materially change from period to period due to changes in the underlying assumptions.

#### *Impairment of long-lived Assets*

Carrying values of non-producing mining properties and the property, plant and equipment associated with those exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If the property is assessed to be impaired, it is written down to its estimated recoverable amount. Significant judgments and estimates are made when estimating this net recoverable value. Therefore the recorded value of exploration and evaluation assets could materially change from period to period due to changes in estimates.

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### 3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

#### a) **Functional currency and foreign currency translation**

The functional currency of the Company and its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss.

#### b) **Financial Instruments**

The Company recognizes financial assets and liabilities on the balance sheet when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.



# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 3. Significant Accounting Policies - *Continued*

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are classified as loans and receivables.

#### *Accounts payable, accrued liabilities and due to related parties*

Accounts payable, accrued liabilities, and due to related parties are classified as other financial liabilities. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

#### *Derivative instruments*

Derivative instruments, including embedded derivatives, are recorded at "fair value through profit or loss". 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. This portion of the receivable is considered an embedded derivative. 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 date of the statements of financial position.

#### *Reclamation Bonds*

Cash and cash equivalents subject to contractual restrictions on use are classified separately as reclamation deposits and are classified as loans and receivables.

#### *Impairment of financial assets*

At each reporting date, the company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment loss include:

- (i) significant financial difficulty of the obligor;
- (ii) delinquencies in interest or principal payments; and
- (iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the company recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

#### c) **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.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 3. Significant Accounting Policies - *Continued*

Production cost represents production costs for concentrates including material costs, direct labour, mine and mill site overhead and amortization and depletion. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. If the circumstances that caused the write-down no longer exist, the amount of the write-down is reversed.

#### d) Exploration and Evaluation Assets

Pre-exploration costs or property investigation costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur. Any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

When an exploration project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction" within property, plant and equipment.

#### e) Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Repairs and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized. 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. The Company provides for amortization on its equipment at an annual rate of 45% for computer equipment and 20% for other office and field equipment on the declining balance method.

#### f) Impairment of Non-Financial Assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an impairment loss subsequently reverses, the amount of the reversal is limited such that the revised carrying amount of the asset (or cash generating unit) does not exceed the carrying amount that would have been determined had no prior impairment loss been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 3. Significant Accounting Policies - *Continued*

Where future net cash flows cannot be estimated, management estimates fair value using best estimates and comparative situations in the marketplace. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

#### g) **Asset Retirement Obligations**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation and mining activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore its exploration and mine sites in the period in which the obligation is incurred. The nature of rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The restoration provision generally arises when the environmental disturbance is subject to government laws and regulations. The restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate. The present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

#### h) **Share-based Payments**

The Company may grant stock options to buy common shares of the Company to directors, officers, employees and consultants.

The fair value of the estimated number of stock options awarded to employees, officers and directors that will eventually vest, is recognized as share-based compensation expense over the vesting period of the stock options with a corresponding increase to contributed surplus. The share-based payment cost is recognized in net loss or capitalized in property, plant and equipment and exploration and evaluation assets. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option-pricing model. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in net loss or capitalized in property, plant and equipment and exploration and evaluation assets such that the accumulated expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

#### i) **Current and Deferred Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 3. Significant Accounting Policies - *Continued*

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### j) Mineral Exploration Tax Credits (“METC”)

The Company recognizes METC amounts as a reduction in exploration and evaluation assets when the Company's application for tax credits is approved by the 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 statement of loss.

#### k) Equity Unit Offerings

The Company has adopted a pro-rata basis method for the measurement of shares and warrants issued as units in financing arrangements. The pro-rata basis method requires that gross proceeds and related share issuance costs be allocated to the common shares and the warrants based on the relative fair value of each component.

The fair value of the common shares is based on the closing price on the closing date of the transaction and the fair value of the warrants is determined on the closing date of the transaction using the Black-Scholes option pricing model.

The fair value attributed to the warrants is recorded as contributed surplus. If the warrants are exercised, the value attributable to the warrants is transferred to share capital.

#### l) 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.

#### m) Earnings (loss) per share

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

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# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 4. New Accounting Pronouncements

The International Accounting Standards Board has issued several new standards which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for *IFRS 9* which becomes effective January 1, 2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

#### *IFRS 9 – Financial Instruments*

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The Standard was also amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.

#### *IFRS 13 - Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

#### *IAS 1 - Presentation of Items of Other Comprehensive Income (“OCI”)*

IAS 1 has been amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.

#### *IAS 27 - Consolidated and Separate Financial Statements*

IAS 27 has been renamed “Separate Financial Statements” and deals solely with separate financial statements, the guidance for which remains unchanged.

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### 5. Inventories

Details are as follows:	August 31, 2012	August 31, 2011	September 1, 2010
Consumable parts and supplies	\$ 83,430	\$ 289,946	\$ 369,211
Product inventory	-	276,005	178,799
Total	\$ 83,430	\$ 565,951	\$ 548,010

During the year ended August 31, 2012, the Company expensed a write-down of \$Nil (2011 – \$235,597) on its product inventory and \$70,542 (2011 – \$137,974) on its parts and supplies inventory in order to record inventories at net realizable value.

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# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 6. Exploration and Evaluation Assets

Details are as follows:

	Acquisition (Recovery)	Deferred Exploration & Evaluation	Total August 31, 2012	Total August 31, 2011	Total September 1, 2010
MAX Molybdenum Mine (a)	\$ -	\$ -	\$ -	\$ 958,061	\$ 872,905
Foremore VMS-Gold Project (b)	737,511	5,990,077	6,727,588	6,574,490	6,503,527
SeaGold Project (c)	(40,250)	82,501	42,251	27,251	25,000
	\$ 697,261	\$ 6,072,578	\$ 6,769,839	\$ 7,559,802	\$ 7,401,432

#### 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) 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.

#### c) SEAGOLD Project, Liard Mining Division, B.C., Canada

The Company holds a joint venture interest in certain properties, known as the SeaGold Project in the Liard Mining Division, B.C., the balance being held by 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.

#### **Impairment assessment**

As at August 31, 2012, management of the Company determined that impairment indicators existed, and completed an impairment assessment for capitalized exploration and evaluation costs related to the MAX molybdenum mine and surrounding property.

In light a significantly reduced global outlook for future molybdenum and tungsten prices, the Company assessed the fair value of previously capitalized grass roots exploration costs at the MAX project to be nil as of August 31, 2012. An impairment loss of \$1,274,974 was recognized during the year ended August 31, 2012 in connection with the write-down.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 7. Property, Plant and Equipment

Details are as follows:

	Mining equipment, property and development costs (\$)	Plant and equipment (\$)	Buildings and support facilities (\$)	Construction in progress (\$)	Acquisition Max property (\$)	Total (\$)
<b>At September 1, 2010</b>						
Cost	42,587,593	18,193,918	6,179,110	1,286,767	920,460	69,167,848
Write-downs	(1,924,449)	-	-	-	-	(1,924,449)
Accumulated amortization	(28,126,460)	(16,423,316)	(5,426,211)	-	(823,615)	(50,799,602)
Net book value	12,536,684	1,770,602	752,899	1,286,767	96,845	16,443,797
<b>Year ended August 31, 2011</b>						
Additions	1,602,513	18,094	13,811	4,486	-	1,638,904
Dispositions	-	-	(2,398)	-	-	(2,398)
Write-downs	(13,168,269)	(613,795)	(430,252)	(1,197,197)	(15,141)	(15,424,654)
Amortization	(215,904)	(19,361)	(20,192)	-	(634)	(256,091)
At August 31, 2011	755,024	1,155,540	313,868	94,056	81,070	2,399,558
<b>At August 31, 2011</b>						
Cost	44,190,106	18,212,012	6,190,523	1,291,253	920,460	70,804,354
Accumulated Write-downs	(15,092,718)	(613,795)	(430,252)	(1,197,197)	(15,141)	(17,349,103)
Accumulated Amortization	(28,342,364)	(16,442,677)	(5,446,403)	-	(824,249)	(51,055,693)
Net Book Value	755,024	1,155,540	313,868	94,056	81,070	2,399,558
<b>Year ended August 31, 2012</b>						
Additions	315,063	24,225	31,525	-	-	370,813
Disposals	(100,057)	(7,001)	(15,129)	-	-	(122,187)
Write-downs/Reversals	(535,168)	(21,476)	(28,344)	-	-	(584,988)
Amortization	-	-	(9,526)	-	-	(9,526)
At August 31, 2012	434,862	1,151,288	292,394	94,056	81,070	2,053,670
<b>At August 31, 2012</b>						
Cost	44,421,596	18,146,470	6,111,476	1,291,253	920,460	70,891,255
Accumulated Write-downs	(15,644,370)	(552,505)	(363,153)	(1,197,197)	(15,141)	(17,772,366)
Accumulated Amortization	(28,342,364)	(16,442,677)	(5,455,929)	-	(824,249)	(51,065,219)
Net Book Value	434,862	1,151,288	292,394	94,056	81,070	2,053,670

Note: 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. 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.

Included in the \$606,924 write-down of plant and equipment is a credit adjustment of \$161,726 relating to BC METC that should have been recorded in 2011. Also included in the write-down of plant and equipment is an expense of \$183,661 relating to the effect of changes in measurement of existing MAX molybdenum mine asset retirement obligations as at August 31, 2012. As plant and equipment is already stated at its net recoverable amount, management recognized the related asset adjustment as an increase in impairment expense in the consolidated statement of loss in 2012 (*Note 10*).

#### Mine Holding 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 *Mine Holding Costs* until production resumes.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 8. 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, 2012 and 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:

	<i>Warrants</i>	<i>Agent Warrants</i>
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

#### b) Incentive 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 Company's stock option plan did not receive shareholder approval at the Company's annual general meetings held in February of 2010 and 2011 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 incentive stock options.

There were nil stock options outstanding as of August 31, 2012. During the year ended August 31, 2011, a total of 925,000 incentive stock options were forfeited or 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.



# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 8. Shareholder's Equity - Continued

#### c) Warrants

During the year ended August 31, 2012, a total of 15,200,000 warrants and 1,248,800 agent warrants expired unexercised. At August 31, 2012 there were no warrants left outstanding. A summary of the changes during the period is as follows:

Number Outstanding August 31, 2011	Expired	Number Outstanding August 31, 2012	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
<b>16,448,800</b>	<b>(16,448,800)</b>	<b>-</b>		

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 year, 300,000 warrants were exercised for proceeds of \$105,000 and a total of 8,246,730 warrants and agent warrants expired unexercised. The carrying 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 September 1, 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
<b>8,546,730</b>	<b>(8,246,730)</b>	<b>16,448,800</b>	<b>(300,000)</b>	<b>16,448,800</b>	<b>\$0.30</b>	

#### d) Contributed Surplus

Details are as follows:

	August 31, 2012	August 31, 2011	September 1, 2010
Balance – Beginning of Year	\$ 13,543,304	\$ 12,841,343	\$ 12,314,222
Fair value share-based awards granted	-	-	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
Carrying value of share-based awards exercised	-	-	(113,538)
Carrying value of agent warrants exercised	-	-	(2,798)
Carrying value of warrants exercised	-	(25,412)	(72,070)
Balance – End of Year	<b>\$ 13,543,304</b>	<b>\$ 13,543,304</b>	<b>\$ 12,841,343</b>

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 9. Reclamation Bonds

At August 31, 2012 and August 31, 2011, reclamation bonds totalling \$752,900 were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

	<b>August 31,</b>		August 31,		September 1,
	<b>2012</b>		2011		2010
MAX Molybdenum Project	\$ 730,000	\$	730,000	\$	730,000
Foremore Project	22,900		22,900		22,900
Other Projects	-		-		6,000
<b>Total</b>	<b>\$ 752,900</b>	\$	<b>752,900</b>	\$	<b>758,900</b>

### 10. Asset Retirement 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:

	<b>August 31,</b>		August 31,		September 1,
	<b>2012</b>		2011		2010
Balance – Beginning of Period	\$ 1,136,744	\$	1,134,388	\$	1,184,593
Accretion	27,175		36,934		53,089
Change in reclamation estimate	171,083		(34,578)		(103,293)
<b>Balance – End of Period</b>	<b>\$ 1,335,002</b>	\$	<b>1,136,744</b>	\$	<b>1,134,388</b>

The Company has estimated its MAX Molybdenum mine future site restoration costs to be \$1,313,402 as of August 31, 2012. Other property retirement obligations of \$21,600 have been estimated by management. All amounts are now recorded undiscounted due to the Max mine's temporary shutdown status and 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.

### 11. Related Party Transactions

The following transactions were carried out with related parties:

- During the year ended August 31, 2012, the Company was reimbursed for rent and office expenses totalling \$40,614 (2011 - \$39,042) by a company with common management.
- During the year ended August 31, 2012, per-diem consulting fees of \$7,500 (2011 – Nil) were paid or accrued to a director of the Company.
- During the year ended August 31, 2012, Directors of the Company provided various short-term, non-interest bearing loans without fixed repayment terms to the Company which at August 31, 2012 stood at \$252,500 (2011 - \$200,000).
- As at August 31, 2012, current liabilities include \$767,929 (2011 - \$260,494) payable to Directors of the Company.

Key management includes the Chief Executive Officer, Chief Financial Officer and members of the Company's Board of Directors. Other than as disclosed above, compensation paid or accrued to key management for services during the years ended August 31, 2012 and August 31, 2011 is as follows:

	<b>2012</b>		2011
Salaries and benefits	\$ 286,795	\$	295,523
	<b>\$ 286,795</b>	\$	<b>295,523</b>

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 11. Related Party Transactions - Continued

These transactions were incurred in the ordinary course of business (except as noted in 11c), 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.

### 12. Income Taxes

- a) Income tax expense differs from the amount that would result from applying the Canadian and federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	Year Ended August 31, 2012	Year Ended August 31, 2011
Loss before income taxes	\$ (3,756,734)	\$ (20,153,903)
Canadian federal and provincial income tax rate	25.50%	27.17%
Income tax recovery based on above rates	(957,967)	(5,475,815)
Increase (decrease) due to:		
Losses for which no tax benefit was recorded	936,626	4,997,942
Non-deductible expenses for tax purposes	2,557	970
Statutory tax rate change and other	18,784	476,903
Write-down of deferred income tax asset <sup>1</sup>	-	1,515,643
Income tax expense (recovery)	\$ -	\$ 1,515,643
Consists of:		
Write-down of deferred income tax asset	-	1,515,643
	\$ -	\$ 1,515,643

Note 1: 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 unrecognized deferred income tax assets and BC mineral tax assets are as follows:

	August 31, 2012	August 31, 2011	September 1, 2010
<i>Deferred income and mineral tax assets</i>			
Non-capital loss carry forwards	\$ 2,942,410	\$ 2,133,956	\$ 1,323,676
Share issue costs	50,810	75,068	154,785
Resource property costs	3,438,679	3,361,832	1,636,068
Property, plant and equipment	14,914,236	14,818,578	9,310,839
Other	300,740	285,675	301,831
Asset retirement obligation	461,807	392,913	392,093
Total unrecognized deferred and BC mineral tax assets	\$ 22,108,682	\$ 21,068,022	\$ 13,119,292

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

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### 12. Income Taxes - *continued*

- c) The Company has non-capital losses for tax purposes of \$11,764,816 that may be available to offset future taxable income. These loss carry-forwards are all in respect of Canadian and Mexican operations and expire as follows:

	Amount
2020	\$ 40,198
2026	218,077
2027	784,187
2028	1,408,816
2029	763,210
2030	877,285
2031	5,281,843
2032	2,391,200
	<u>\$ 11,764,816</u>

The Company also has tax basis \$20,500,000 (2011 - \$21,100,000) in respect of exploration and evaluation assets which has no expiry date. In addition, the Company has a tax basis of \$33,600,000 (2011 - \$33,900,000) in respect of property, plant and equipment which has no expiry date.

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### 13. 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
2012	\$ 75,573
2013	78,372
	<u>\$ 153,945</u>

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### 14. Financial Instruments

#### a) Fair Values

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 and 2012 as shown below:

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 14. Financial Instruments – Continued

Financial Assets	Fair Value Hierarchy Level	Carrying and Fair Values		
		August 31, 2012	August 31, 2011	September 1, 2010
Cash and cash equivalents	N/A	\$ 1,775	\$ 12,096	\$ 162,357
Reclamation bonds	N/A	\$ 752,900	\$ 752,900	\$ 758,900
Trade accounts receivable	N/A	\$ -	\$ 367,591	\$ 536,310
Marketable Securities	N/A	\$ -	\$ -	\$ 7,500

The fair values of the Company's trade accounts receivable are estimated to approximate their carrying values due to the immediate or short-term maturity. The fair value of accounts payable and accrued liabilities and due to related parties may be less than the carrying value as a result of the Company's credit and liquidity risk. The fair value of embedded derivatives is included in trade accounts receivable (Note 14c-vi).

#### b) Capital 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. Total equity is the equity attributable to shareholders of the Company in the consolidated statement of financial position. 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, 2012. As at August 31, 2012, 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.

#### c) 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.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 14. Financial Instruments – Continued

#### 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.

At August 31, 2012, the Company's held financial assets held in US dollars and Mexican pesos were:

	stated in \$US		stated in \$MX	
Cash and cash equivalents	\$	-	\$	74
Trade Receivables		-		66,661
Total	\$	-	\$	66,735

At August 31, 2012, the Company's financial liabilities held in US dollars and Mexican pesos were:

	stated in \$US		stated in \$MX	
Accounts payable and accrued liabilities	\$	123,971	\$	-
Total	\$	123,971	\$	-

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 \$(12,397) in net loss respectively for year ended August 31, 2012. Variations in the Mexican peso would result in an insignificant change in net loss for year ended August 31, 2012.

#### 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, 2012.

#### 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. The Company seeks to manage liquidity requirements based on expected cash flow to try 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.

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 14. Financial Instruments – Continued

#### 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, 2012, all previously recorded embedded derivatives in the provisionally priced sales agreement were settled into revenues (2011- Dr.US\$10,397 or Cdn\$10,189).

### 15. First Time Adoption of IFRS

Under IFRS 1 – *First Time Adoption of International Financial Reporting Standards*, the Company is required to reconcile equity, comprehensive income (loss) and cash flows for prior periods. As there has been no impact on net cash flows, no reconciliation of the statements of cash flows has been provided.

#### a) Reconciliation of Equity

Reconciliations between Canadian GAAP and IFRS Equity as at September 1, 2010 and August 31, 2011 are provided below:

	Note	August 31, 2011 \$	September 1, 2010 \$
<b>Equity under GAAP</b>		8,499,604	24,719,530
Impairment of property, plant and equipment	(i)	-	(1,924,449)
Future income tax recovery - stock based compensation related to exploration assets	(ii)	(67,979)	(67,979)
Future income tax recovery - stock based compensation related to plant and equipment	(iii)	-	(70,883)
<b>Total IFRS adjustments to equity</b>		<b>(67,979)</b>	<b>(2,063,311)</b>
<b>Equity under IFRS</b>		<b>8,431,625</b>	<b>22,656,219</b>

# Roca Mines Inc.

## Notes to Consolidated Financial Statements

Canadian Funds

### 15. First Time Adoption of IFRS - Continued

#### b) Reconciliation of Comprehensive Loss

Reconciliations between Canadian GAAP and IFRS comprehensive loss for the year ended August 31, 2011 are provided below:

	Note	Year ended August 31, 2011 \$
<b>Comprehensive Loss under GAAP</b>		(23,652,378)
Reduced impairment of property, plant and equipment	(i)	1,924,449
Reduced impairment of property, plant and equipment	(iii)	70,883
<b>Total IFRS adjustments to comprehensive loss</b>		1,995,332
<b>Comprehensive Loss under IFRS</b>		(21,657,046)

#### Note (i)

Under Canadian GAAP, the Company previously tested for impairment of its property, plant and equipment using an undiscounted cash flow model. Under IFRS, the impairment test requires using a risk-adjusted discounted cash flow model. As such, plant and equipment originally recorded under Canadian GAAP was impaired by an additional \$1,924,449 as of September 1, 2010 and August 31, 2011 under IFRS, reducing equity by a corresponding amount. However, as the carrying value of the asset was written down to net recoverable value at August 31, 2011, the Company's loss was reduced by the same amount and there was no net effect on equity as at August 31, 2011.

#### Note (ii)

Under Canadian GAAP, the Company previously capitalized stock-based compensation specifically related to mineral exploration or property, plant and equipment on its various properties including any related deferred income tax impact. Under IFRS, while the stock-based compensation may still be capitalized, the deferred income tax impact would not. Therefore, exploration and evaluation assets originally recorded under Canadian GAAP were reduced by \$67,979 as of September 1, 2010. This had the effect of increasing the Company's deficit (reducing equity) by a total of \$67,979 as at August 31, 2011.

#### Note (iii)

Under Canadian GAAP, the Company previously capitalized stock-based compensation specifically related to plant and equipment related to the MAX Molybdenum project including any related deferred income tax impact. Under IFRS, while the stock-based compensation may still be capitalized, the deferred income tax impact would not. As such, plant and equipment originally recorded under Canadian GAAP was reduced by \$70,883 as of September 1, 2010 and August 31, 2011. However, as the carrying value of the asset was written down to net recoverable value at August 31, 2011, the Company's loss was reduced by a corresponding amount and there was no net effect on equity as at August 31, 2011.

### 16. Segmented Information

The Company's principal activity is the exploration and development of mineral properties with these properties located in Canada.