ROCA MINES INC.

CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2010 and 2009

(Expressed in Canadian Funds)

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended November 30, 2010.

Roca Mines Inc.
Consolidated Balance Sheets
Canadian Funds

ASSETS	As at November 30, 2010 (unaudited)	As at August 31, 2010
Current		
Cash and cash equivalents	**$ 1,128,627**	$ 162,357
Accounts receivable	**131,439**	1,100,161
Prepaid expenses and deposits	**47,590**	80,170
Inventories *(Note 3)*	**354,226**	548,010
Marketable securities	**8,000**	7,500
	1,669,882	1,898,198
Property, Plant and Equipment *(Note 4)*	**18,763,413**	18,439,129
Resource Property Costs *(Note 5)*	**7,487,024**	7,469,411
Future income tax asset *(Note 10)*	**1,515,643**	1,515,643
Reclamation Bonds *(Note 7)*	**758,900**	758,900
	28,524,980	28,183,083
	$ 30,194,862	$ 30,081,281
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 800,635**	$ 4,095,997
Due to related parties *(Note 9c)*	**17,565**	117,600
	818,200	4,213,597
Asset Retirement and Mine Closure Obligations *(Note 8)*	**1,143,398**	1,134,388
Other Long Term Liabilities	**4,943**	13,766
	1,966,541	5,361,751
SHAREHOLDERS' EQUITY		
Share Capital *(Note 6a)*	**54,358,714**	50,132,397
Contributed Surplus	**13,461,993**	12,841,343
Accumulated Other Comprehensive Loss	**(12,000)**	(12,500)
Deficit	**(39,580,386)**	(38,241,710)
	28,228,321	24,719,530
	$ 30,194,862	$ 30,081,281

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

ON BEHALF OF THE BOARD:

"Scott Broughton", Scott E. Broughton, Director

"David Skerlec", David J. Skerlec, Director

Roca Mines Inc.
Consolidated Statements of Operations and Loss
For the Three Months Ended November 30
Canadian Funds
Unaudited

		2010		2009
Revenues	**$**	**861,679**	$	3,076,940
Cost of Sales				
Operating expenses		**1,149,057**		4,009,814
Depletion, amortization and accretion		**102,834**		624,782
Mining Loss		**(390,212)**		(1,557,656)
Expenses				
Temporary shutdown and rehabilitation costs		**655,886**		-
General and administrative		**274,917**		324,424
Stock-based compensation *(Note 6b)*		**-**		97,890
Generative exploration and resource costs written-off		**-**		5,780
Loss from Operations		**(1,321,015)**		(1,985,750)
Other Income (expenses)				
Foreign exchange loss		**(20,214)**		(109,818)
Interest income		**2,553**		8,097
Loss Before Taxes		**(1,338,676)**		(2,087,471)
Income and Mining Tax Provision (recovery) *(Note 10)*				
Current		**-**		-
Future		**-**		(721,629)
		-		(721,629)
Net Loss for the Period	**$**	**(1,338,676)**	$	(1,365,842)
Net Loss per Share - Basic and Diluted	**$**	**(0.01)**	$	(0.02)
Weighted Average Number of Common Shares Outstanding		**97,424,239**		91,545,560

Roca Mines Inc.
Consolidated Statement of Comprehensive Loss
For the Three Months Ended November 30
Canadian Funds
Unaudited

		2010		2009
Net Loss for the Period	**$**	**(1,338,676)**	$	(1,465,842)
Unrealized gain on marketable securities		**500**		1,750
Comprehensive Loss for the Period	**$**	**(1,338,176)**	$	(1,464,092)

- See Accompanying Notes to the Consolidated Financial Statements -

Roca Mines Inc.
Consolidated Statements of Cash Flows
For the Three Months Ended November 30
Canadian Funds

		2010		2009
Operating Activities				
Loss for the period	$	**(1,338,676)**	$	(1,365,842)
Less: Items not affected by cash:				
Future income tax recovery		**-**		(721,629)
Amortization, depletion, accretion		**102,834**		624,782
Stock-based compensation		**-**		97,890
Changes in non-cash working capital items:				
Accounts receivable		**442,146**		2,130,618
Inventory		**193,784**		191,475
Prepaid expenses and deposits		**32,580**		87,036
Accounts payable, accrued liabilities, due to related party		**(2,247,042)**		(526,305)
		(2,814,374)		518,025
Investing Activities				
Purchase of property, plant and equipment		**(943,667)**		(1,401,480)
Resource property costs, *net of exploration tax credits*		**(122,656)**		(51,918)
Reclamation bonds refunded		**-**		3,000
		(1,066,323)		(1,450,398)
Financing Activities				
Equity issuance proceeds		**5,100,000**		51,310
Equity issuance costs		**(253,033)**		-
		4,846,967		51,310
Net Increase (Decrease) in Cash and Cash Equivalents		**966,270**		(881,063)
Cash and cash equivalents - Beginning of Period		**162,357**		2,754,794
Cash and Cash Equivalents - End of Period	**$**	**1,128,627**	$	1,873,731

Supplemental Schedule of Non-Cash Investing and Financing Transactions

Plant and equipment expenditures included in accounts payable	**$**	**(473,405)**	$	175,097
Resource property expenditures included in accounts payable	**$**	**(600)**	$	(22,224)
Stock-based compensation recorded as investing activities	**$**	**-**	$	42,405

- See Accompanying Notes to the Consolidated Financial Statements -

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

Canadian Funds, except share amounts.
Unaudited

	Three Months Ended November 30, 2010		Year Ended August 31, 2010	
	Number of Shares		Number of Shares	
Share capital				
Balance at beginning of period	93,164,898	$ 50,132,397	91,420,628	$ 49,414,564
Issued for cash				
Private placements	20,400,000	4,531,852	-	-
Exercise of options	-	-	750,000	187,500
Exercise of warrants	-	-	970,000	339,500
Exercise of agent warrants	-	-	24,270	8,494
Fair value of options exercised	-	-	-	113,538
Fair value of warrants exercised	-	-	-	72,070
Fair value of agent warrants exercised	-	-	-	2,798
Share issuance costs	-	(305,535)	-	(6,067)
Balance at end of period	113,564,898	54,358,714	93,164,898	50,132,397
Contributed surplus				
Balance at beginning of period		12,841,343		12,314,222
Fair value stock-based compensation		-		709,461
Unit proceeds allocated to warrants		568,148		-
Fair value agent warrants issued		90,805		-
Issuance costs attributable to warrants		(38,303)		-
Issuance costs for warrants exercised		-		6,066
Fair value of options exercised		-		(113,538)
Fair value of warrants exercised		-		(72,070)
Fair value of agent warrants exercised		-		(2,798)
Balance at end of period		13,461,993		12,841,343
Accumulated other comprehensive loss				
Balance at beginning of period		(12,500)		(14,000)
Unrealized gain (loss) on marketable securities		500		1,500
Balance at end of period		(12,000)		(12,500)
Deficit				
Balance at beginning of period		(38,241,710)		(24,002,034)
Net loss for the period		(1,338,676)		(14,239,676)
Balance at end of period		(39,580,386)		(38,241,710)
TOTAL SHAREHOLDERS' EQUITY	113,564,898	$ 28,228,321	93,164,898	$ 24,719,530

- See Accompanying Notes to the Consolidated Financial Statements -

1. Nature of Operations and Going Concern

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

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the three months ended November 30, 2010, the Company reported a loss of $1,338,676 and an accumulated deficit of $39,580,386 at that date. The Company had working capital of $851,682 and cash and cash equivalents at November 30, 2010 amounted to $1,128,627. 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 dilutive conditions which have delivered lower than expected grades. The Max Molybdenum Mine is currently not operating due to ground stability events encountered in August and September, 2010. 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 for the Company. Although management has been successful in the past, there is no assurance that these initiatives will be successful in the future.

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

2. Significant Accounting Policies

a) Basis of Preparation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and follow the same accounting policies and methods consistent with those used in the preparation of the most recent annual audited consolidated financial statements except as noted below. The interim consolidated financial statements do not include all information and note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company's audited consolidated financial statements for the year ended August 31, 2010. The financial statements are presented in Canadian dollars on a consolidated basis and include the accounts of the Company's subsidiaries Minera ROK, S.A. de C.V., and FortyTwo Metals Inc. Intercompany accounts and transactions have been eliminated on consolidation.

b) Adoption of New Accounting Policies

The Company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

i) In 2009 the Accounting Standards Board amended CICA handbook Section 3862 "Financial Instruments – Disclosures" ("Section 3862"), to require enhanced disclosures – a "fair value hierarchy" that classifies financial instruments at one of three levels according to the relative reliability of the inputs used to estimate the fair values. The new disclosure requirements of this standard are addressed in Note 12.

2. Significant Accounting Policies - *Continued*

c) Accounting Developments

i) The CICA issued new Handbook Section 1582, “Business Combinations”, Handbook Section 1600, “Consolidated Financial Statements” and Handbook Section 1601, “Non-controlling Interests” in January 2009 which establish a new section for accounting for a non-controlling interest in a subsidiary. These new standards are expected to align Canadian GAAP with the provisions of the International Financial Reporting Standards (“IFRS”) equivalent IFRS3, “Business Combinations” and IAS 27, “Consolidated and Separate Financial Statements”. The new standards will be effective for business combinations for which the acquisition date is on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company’s consolidated financial statements as part of the Company’s IFRS initiatives.

3. Inventories

Details are as follows:		**November 30, 2010**		August 31, 2010
Consumable parts and supplies	**$**	**354,226**	$	369,211
Product inventory		**-**		178,799
Total	**$**	**354,226**	$	548,010

4. Property, Plant and Equipment

Details are as follows:

		Cost		Accumulated Amortization and Depletion		**November 30, 2010 Net Book Value**
Mine property and development costs	$	43,028,493	$	28,201,882	**$**	**14,826,611**
Plant and equipment		18,230,011		16,428,627		**1,801,384**
Buildings and support facilities		6,179,110		5,431,560		**747,550**
Construction in progress		1,291,252		-		**1,291,252**
Acquisition – MAX property		920,461		823,845		**96,616**
	$	69,649,327	$	50,885,914	**$**	**18,763,413**

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

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

5. Resource Property Costs

Details are as follows:

	Acquisition (Recovery)	Deferred Exploration & Development	Gain	**Total November 30, 2010**	Total August 31, 2010
MAX Molybdenum Mine *(a)*	$ -	$ 873,022	$ -	$ **873,022**	$ 872,905
Foremore VMS-Gold Project *(b)*	583,219	5,990,783	-	**6,574,002**	6,571,506
SeaGold Project *(c)*	(55,250)	73,359	21,891	**40,000**	25,000
	$ 527,969	$ 6,937,164	$ 21,891	$ **7,487,024**	$ 7,469,411

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

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

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

6. Shareholder's Equity

a) Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value. At November 30, 2010 there were 113,564,898 common shares outstanding.

During the first quarter ended November 30, 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 1,248,000 agent warrants were issued in connection with this offering, the agent warrants also exercisable until November 12, 2011, at $0.30 per common share.

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

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

b) Stock Options

The Company established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan was not to exceed 10% of the issued and outstanding common shares. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the board of directors and the exercise price of an option is not less than a prescribed discount from the closing price on the TSX Venture Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors. This plan did not receive shareholder approval at the Company's annual general meeting in February of 2010, as required by the policies of the TSX Venture Exchange. No options were granted during the three months ended November 30, 2010 and year ended August 31, 2010.

During the three months ended November 30, 2010, a total of 550,000 stock incentive options expired following the resignation of a director and certain employees of the Company. At November 30, 2010 there were 4,080,000 incentive stock options outstanding and exercisable at an average exercise price of $1.77.

A summary of the Company's stock options at November 30, 2010 and the changes for the period are as follows:

6. Shareholder's Equity - *Continued*

Number Outstanding August 31, 2010	Exercised	Forfeited	**Number Outstanding November 30, 2010**	Exercise Price Per Share	Expiry Date
1,150,000	-	(125,000)	**1,025,000**	$1.45	19-Feb-12
880,000	-	-	**880,000**	$1.00	19-Feb-12
875,000	-	(100,000)	**775,000**	$3.55	15-Nov-12
425,000	-	-	**425,000**	$1.00	15-Nov-12
650,000	-	(75,000)	**575,000**	$2.25	21-Aug-13
650,000	-	(250,000)	**400,000**	$1.00	21-Aug-13
4,630,000	-	(550,000)	**4,080,000**	$1.77	

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

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

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

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

For the year ended August 31, 2010, a total of $709,461 (2009 - $575,520) in stock based compensation was recognized, of which $532,190 was expensed (2009 - $404,148), with the remaining balances capitalized, which amounts include the effects of the exercise price modifications. The offsetting entries are to contributed surplus.

At August 31, 2010 there were 4,630,000 incentive stock options outstanding and exercisable at an average exercise price of $1.77. A summary of the Company's stock options at August 31, 2010 and the changes for the year are as follows:

Number Outstanding August 31, 2009	Exercised	Forfeited	Modified	**Number Outstanding August 31, 2010**	Exercise Price Per Share	Expiry Date
750,000	(750,000)	-	-	**-**	$0.25	18-Oct-10
2,455,000	-	(425,000)	(880,000)	**1,150,000**	$1.45	19-Feb-12
-	-	-	880,000	**880,000**	$1.00	19-Feb-12
1,625,000	-	(325,000)	(425,000)	**875,000**	$3.55	15-Nov-12
-	-	-	425,000	**425,000**	$1.00	15-Nov-12
1,525,000	-	(225,000)	(650,000)	**650,000**	$2.25	21-Aug-13
-	-	-	650,000	**650,000**	$1.00	21-Aug-13
6,355,000	(750,000)	(975,000)	-	**4,630,000**	$1.77	

6. Shareholder's Equity - *Continued*

c) Warrants

During the three months ended November 30, 2010, a total of 10,200,000 warrants and 1,248,800 agent warrants were granted with an exercise price of $0.30. At November 30, 2010 there were a total of 19,995,530 warrants outstanding at an average exercise price of $0.32. A summary of the changes during the period is as follows:

Number Outstanding August 31, 2010	Expired	Granted	Exercised	**Number Outstanding November 30, 2010**	Exercise Price Per Share	Expiry Date
-		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	-	-	-	**4,780,000**	$0.35	27-Jan-11
26,730	-	-	-	**26,730**	$0.35	27-Jan-11
3,740,000	-	-	-	**3,740,000**	$0.35	13-Feb-11
8,546,730	-	11,448,800	-	**19,995,530**	$0.32	

During the year ended August 31, 2010, a total of 970,000 and 24,270 agent warrants were exercised for gross proceeds of $339,500 and $8,495 respectively. The fair value of the warrants exercised was calculated to be $72,070 and the agent warrants $2,798, which amounts have been transferred to share capital from contributed surplus.

A summary of the changes for the year ended August 31, 2010 is as follows:

Number Outstanding August 31, 2009	Expired	Granted	Exercised	**Number Outstanding August 31, 2010**	Exercise Price Per Share	Expiry Date
5,350,000	-	-	(570,000)	**4,780,000**	$0.35	27-Jan-11
51,000	-	-	(24,270)	**26,730**	$0.35	27-Jan-11
4,140,000	-	-	(400,000)	**3,740,000**	$0.35	13-Feb-11
9,541,000	-	-	(994,270)	**8,546,730**	$0.35	

7. Reclamation Bonds

At November 30, 2010, reclamation bonds totalling $758,900 were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

	November 30, 2010	August 31, 2010
MAX Molybdenum Project	$ **730,000**	$ 730,000
Foremore Project	**22,900**	22,900
Other projects	**6,000**	6,000
Total	$ **758,900**	$ 758,900

8. Asset Retirement and Mine Closure Obligations

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

		November 30, 2010		August 31, 2010
Balance – Beginning of Period	$	**1,134,388**	$	1,184,592
Accretion		**9,010**		53,089
Change in reclamation estimate		**-**		(103,293)
Balance – End of Period	$	**1,143,398**	$	1,134,388

The Company has estimated its MAX Molybdenum mine future site restoration costs to be $1,313,403 and estimates the most likely date for the reclamation to be initiated as June 2015. The reclamation amount has been discounted by a rate of 0.75% on the first $730,000 and 7.75% on the remaining balance of $583,403. Other property retirement obligations of $21,600 have been estimated by management and are recorded undiscounted due to the uncertainty in forecasting ultimate closure dates.

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

9. Related Party Transactions

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

a) During the three months ended November 30, 2010, per-diem consulting fees of $Nil (2009 – 12,750) were paid or accrued to a director of the Company.

b) During the three months ended November 30, 2010, the Company was reimbursed for rent and office expenses totalling $9,578 (2009 - $12,339) by a company with common management.

c) As at November 30, 2010, current liabilities include $17,565 (2009 - $69,297) 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.

10. Income Taxes

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

		Three Month Period Ended November 30, 2010		Year Ended August 31, 2010
Loss before income taxes	**$**	**(1,338,676)**	$	(2,846,496)
Canadian federal and provincial income tax rate		**27.17%**		29.00%
Income tax recovery based on above rates		**(363,718)**		(825,484)
Increase (decrease) due to:				
Change in valuation allowance		**542,294**		-
Increase in valuation allowance with respect to BC mineral taxes		**(155,397)**		-
Share issuance costs		**(63,258)**		-
Non-deductible expenses for tax purposes		**-**		133,048
Statutory tax rate change and other		**40,079**		536,969
BC Mineral tax		**-**		(35,390)
Write-down of future income tax asset[1]		**-**		11,584,037
Income tax expense (recovery)	**$**	**-**	$	11,393,180
Consists of:				
Current BC Mineral tax expense	**$**	**-**	$	(105,651)
Write-down of future income tax asset		**-**		11,584,037
Future income and BC Mineral tax recovery		**-**		(85,206)
	$	**-**	$	11,393,180

Note 1: At August 31, 2010 and in light of ongoing operational difficulties at the MAX Molybdenum mine, the Company determined that a portion of its previously recognized future income tax assets was no longer more likely than not recoverable, resulting in a future income tax expense of $11,584,037 in the consolidated statement of operations and loss.

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

		November 30, 2010		August 31, 2010
Future income and mineral tax assets				
Non-capital loss carry forwards	**$**	**1,659,600**	$	1,323,676
Share issue costs		**178,001**		154,785
Resource property costs		**1,634,550**		1,636,068
Property, plant and equipment		**9,486,898**		9,310,839
Other		**301,768**		301,831
Asset retirement obligation		**395,225**		392,093
Total future income and mineral tax assets		**13,656,042**		13,119,292
Valuation Allowance		**(12,140,399)**		(11,598,105)
Net future income and mineral tax assets	**$**	**1,515,643**	$	1,521,187
Future income and mineral tax liabilities				
Inventory	**$**	**-**	$	5,544
Total future income and mineral tax liabilities	**$**	**-**	$	5,544
Net Future income and mineral tax asset	**$**	**1,515,643**	$	1,515,643

10. Income Taxes - *continued*

c) In respect of Canadian and Mexican operations, the Company has non-capital losses for tax purposes of $6,633,578 that may be available to offset future taxable income. These loss carry-forwards expire as follows:

		Amount
2020	$	40,198
2026		1,145,789
2027		634,987
2028		701,832
2029		763,210
2030		1,963,665
2031		1,383,897
	$	6,633,578

11. Commitments

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

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

b) The Company has signed an offtake agreement with a U.K.-based purchaser, for molybdenum concentrates produced at the Company's MAX molybdenum mine. The purchaser has agreed to purchase 100 per cent of the concentrates produced at the mine through 2017, with pricing terms to be mutually agreed upon every year.

12. Financial Instruments

a) **Fair Values**

The Company has designated its financial instruments as follows:

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

12. Financial Instruments – *Continued*

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 November 30, 2010 as shown below:

Financial Assets	**Fair Value Hierarchy Level**		**Carrying and Fair Values**
Cash and cash equivalents	**2**	$	1,128,627
Trade accounts receivable	**2**	$	91,876
Marketable securities	**2**	$	8,000
Reclamation bonds	**2**	$	758,900
Financial Liabilities			
Accounts payable and accrued liabilities	**N/A**	$	800,635
Due to related parties	**N/A**	$	17,565
Other long term liabilities	**N/A**	$	4,943

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

b) **Financial Risk Management**

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

i) Credit Risk

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

ii) Foreign Exchange Risk

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

12. Financial Instruments – *Continued*

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 November 30, 2010, the Company's financial assets held in US dollars and Mexican pesos were:

		stated in $US		stated in $MX
Cash and cash equivalents	$	667	$	8,382
Trade Receivables		87,105		-
Total	$	87,772	$	8,382

At November 30, 2010, the Company's financial liabilities held in US dollars and Mexican pesos were:

		stated in $US		stated in $MX
Accounts payable and accrued liabilities	$	188,573	$	9,905
Total	$	188,573	$	9,905

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 $(10,080) in net loss respectively for three months ended November 30, 2010. Variations in the Mexican peso would result in an insignificant change in net loss for three months ended November 30, 2010.

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 November 30, 2010.

iv) Liquidity Risk

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

v) Pledged Financial Assets

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

12. 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 November 30, 2010, the fair value of the embedded derivative in the provisionally priced sales agreement was a debit of US$44,303 (2009- Cr$329,620) or Cdn$45,210 (2009-Cr$348,598). Sales and receivables for the three months ended November 30, 2010 have been adjusted to reflect this embedded derivative.

13. Capital Risk Management

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

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

There were no changes to the Company's approach to capital management during the three months ended November 30, 2010. As at November 30, 2010, 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.