# ROCA MINES INC.

## CONSOLIDATED FINANCIAL STATEMENTS

**August 31, 2010 and 2009**

**(Expressed in Canadian Funds)**

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

***"David Skerlec"***

David J. Skerlec
Chief Financial Officer and Secretary

***"Scott Broughton"***

Scott E. Broughton
President and Chief Executive Officer

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## Auditors' Report

### To the Shareholders of Roca Mines Inc.

We have audited the consolidated balance sheets of Roca Mines Inc. as at August 31, 2010 and 2009 and the consolidated statements of operations and loss, comprehensive loss, cash flows and shareholders' equity and deficit for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2010 and 2009 and the results of its operations and the cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

*(signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**

Vancouver, B.C.
December 15, 2010

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

| ASSETS | | 2010 | | 2009 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash and cash equivalents | $ | **162,357** | $ | 2,754,794 |
| Accounts receivable | | **1,100,161** | | 3,236,388 |
| Prepaid expenses and deposits | | **80,170** | | 241,738 |
| Inventories *(Note 3)* | | **548,010** | | 681,792 |
| Marketable securities | | **7,500** | | 6,000 |
| | | **1,898,198** | | 6,920,712 |
| **Property, Plant and Equipment** *(Note 4)* | | **18,439,129** | | 13,303,083 |
| **Resource Property Costs** *(Note 5)* | | **7,469,411** | | 7,640,362 |
| **Future income tax asset** *(Note 10)* | | **1,515,643** | | 13,082,857 |
| **Reclamation Bonds** *(Note 7)* | | **758,900** | | 767,900 |
| | | **28,183,083** | | 34,794,202 |
| | $ | **30,081,281** | $ | 41,714,914 |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | **4,095,997** | $ | 2,673,244 |
| Due to related parties *(Note 9c)* | | **117,600** | | 124,760 |
| | | **4,213,597** | | 2,798,004 |
| **Asset Retirement and Mine Closure Obligations** *(Note 8)* | | **1,134,388** | | 1,184,592 |
| **Other Long Term Liabilities** | | **13,766** | | 19,566 |
| | | **5,361,751** | | 4,002,162 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Share Capital** *(Note 6a)* | | **50,132,397** | | 49,414,564 |
| **Contributed Surplus** | | **12,841,343** | | 12,314,222 |
| **Accumulated Other Comprehensive Loss** | | **(12,500)** | | (14,000) |
| **Deficit** | | **(38,241,710)** | | (24,002,034) |
| | | **24,719,530** | | 37,712,752 |
| | $ | **30,081,281** | $ | 41,714,914 |

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Note 11)*
Financial Instruments *(Note 12)*
Subsequent Events *(Note 14)*

ON BEHALF OF THE BOARD:

***"Scott Broughton"***, Scott E. Broughton, Director

***"David Skerlec"***, David J. Skerlec, Director

- See Accompanying Notes to the Consolidated Financial Statements -

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

| | | **2010** | | 2009 |
|---|---|---|---|---|
| **Revenues** | **$** | **17,649,841** | $ | 25,959,489 |
| **Cost of Sales** | | | | |
| Operating expenses | | **16,489,167** | | 17,348,348 |
| Depletion, amortization and accretion | | **1,651,096** | | 36,765,811 |
| **Mining Loss** | | **(490,422)** | | (28,154,670) |
| **Expenses** | | | | |
| General and administrative | | **1,268,151** | | 1,390,276 |
| Stock-based compensation *(Note 6b)* | | **532,190** | | 404,148 |
| Generative exploration and resource costs written-off *(Note 5b)* | | **479,790** | | 64,256 |
| **Loss from Operations** | | **(2,770,553)** | | (30,013,350) |
| **Other Income (expenses)** | | | | |
| Foreign exchange gain (loss) | | **(110,459)** | | 598,643 |
| Interest income | | **10,175** | | 56,629 |
| Tax credit on abandoned property | | **10,944** | | 42,161 |
| Gain on disposal of property, plant and equipment | | **13,397** | | 9,553 |
| **Loss Before Taxes** | | **(2,846,496)** | | (29,306,364) |
| **Income and Mining Tax Provision (recovery)** *(Note 10)* | | | | |
| Current | | **(105,651)** | | 178,966 |
| Future | | **11,498,831** | | (11,037,243) |
| | | **11,393,180** | | (10,858,277) |
| **Net Loss for the Year** | **$** | **(14,239,676)** | $ | (18,448,087) |
| **Net Loss per Share - Basic and Diluted** | **$** | **(0.15)** | $ | (0.21) |
| **Weighted Average Number of Common Shares Outstanding** | | **92,490,071** | | 86,584,564 |

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

| | | **2010** | | 2009 |
|---|---|---|---|---|
| **Net Loss for the Year** | **$** | **(14,239,676)** | $ | (18,448,087) |
| Unrealized gain (loss) on marketable securities | | **1,500** | | (4,000) |
| **Comprehensive Loss for the Year** | **$** | **(14,238,176)** | $ | (18,452,087) |

- See Accompanying Notes to the Consolidated Financial Statements -

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

| | 2010 | 2009 |
|---|---|---|
| **Operating Activities** | | |
| Loss for the year | **$ (14,239,676)** | $ (18,448,087) |
| Less: Items not affected by cash: | | |
| Future income tax expense (recovery) | **11,498,831** | (11,037,243) |
| Amortization, depletion, accretion | **1,651,096** | 36,765,811 |
| Stock-based compensation | **532,190** | 404,148 |
| Resource costs written-off | **464,580** | 36,021 |
| Write-down of inventory | **-** | 106,104 |
| Gain on disposal of property, plant and equipment | **(13,397)** | (9,553) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | **1,929,440** | 712,702 |
| Inventory | **133,782** | (170,420) |
| Prepaid expenses and deposits | **116,568** | 216,360 |
| Accounts payable, accrued liabilities, due to related party | **588,310** | 96,660 |
| | **2,661,724** | 8,672,503 |
| **Investing Activities** | | |
| Purchase of property, plant and equipment | **(5,727,211)** | (7,815,437) |
| Resource property costs, *net of exploration tax credits* | **(71,443)** | (1,651,820) |
| Reclamation bonds refunded | **9,000** | - |
| | **(5,789,654)** | (9,467,257) |
| **Financing Activities** | | |
| Equity issuance proceeds | **535,493** | 2,741,950 |
| Share repurchase and cancellation | **-** | (1,503,054) |
| Equity issuance costs | **-** | (186,425) |
| | **535,493** | 1,052,471 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(2,592,437)** | 257,717 |
| Cash and cash equivalents - Beginning of year | **2,754,794** | 2,497,077 |
| **Cash and Cash Equivalents - End of Year** | **$ 162,357** | $ 2,754,794 |

**Supplemental Schedule of Non-Cash Investing and Financing Transactions**

| | 2010 | 2009 |
|---|---|---|
| Plant and equipment expenditures included in accounts payable | **$ 745,003** | $ (846,485) |
| Resource property expenditures included in accounts payable | **$ 82,219** | $ (1,277,511) |
| Stock-based compensation recorded as investing activities | **$ 177,271** | $ 171,372 |
| Future income tax included in property expenditures | **$ 65,265** | $ 32,099 |
| Fair value of warrants issued for finance fees | **$ -** | $ 7,610 |

- See Accompanying Notes to the Consolidated Financial Statements -

# Roca Mines Inc.
## Consolidated Statements of Shareholders' Equity and Deficit
*Canadian Funds, except share amounts.*

| | Year Ended August 31, 2010 Number of Shares | | Year Ended August 31, 2009 Number of Shares | |
|---|---|---|---|---|
| **Share capital** | | | | |
| Balance at beginning of year | 91,420,628 | $ 49,414,564 | 81,970,328 | $ 48,207,676 |
| Issued for cash | | | | |
| Private placements | - | - | 9,740,000 | 1,670,604 |
| Exercise of options | 750,000 | 187,500 | 906,000 | 214,200 |
| Exercise of warrants | 970,000 | 339,500 | 250,000 | 87,500 |
| Exercise of agent warrants | 24,270 | 8,494 | 15,000 | 5,250 |
| Shares repurchased and cancelled | - | - | (1,460,700) | (859,054) |
| Fair value of options exercised | - | 113,538 | - | 150,905 |
| Fair value of warrants exercised | - | 72,070 | - | 25,412 |
| Fair value of agent warrants exercised | - | 2,798 | - | 1,730 |
| Share issuance costs | - | (6,067) | - | (89,659) |
| Balance at end of year | 93,164,898 | 50,132,397 | 91,420,628 | 49,414,564 |
| **Contributed surplus** | | | | |
| Balance at beginning of year | | 12,314,222 | | 11,204,088 |
| Fair value stock-based compensation | | 709,461 | | 575,520 |
| Unit proceeds allocated to warrants | | - | | 764,396 |
| Fair value agent warrants issued | | - | | 7,610 |
| Issuance costs attributable to warrants | | - | | (60,908) |
| Issuance costs for warrants exercised | | 6,066 | | 1,563 |
| Fair value of options exercised | | (113,538) | | (150,905) |
| Fair value of warrants exercised | | (72,070) | | (25,412) |
| Fair value of agent warrants exercised | | (2,798) | | (1,730) |
| Balance at end of year | | 12,841,343 | | 12,314,222 |
| **Accumulated other comprehensive loss** | | | | |
| Balance at beginning of year | | (14,000) | | (10,000) |
| Unrealized gain (loss) on marketable securities | | 1,500 | | (4,000) |
| Balance at end of year | | (12,500) | | (14,000) |
| **Deficit** | | | | |
| Balance at beginning of year | | (24,002,034) | | (4,909,947) |
| Shares repurchased and cancelled | | - | | (644,000) |
| Net loss for the year | | (14,239,676) | | (18,448,087) |
| Balance at end of year | | (38,241,710) | | (24,002,034) |
| **TOTAL SHAREHOLDERS' EQUITY** | 93,164,898 | $ 24,719,530 | 91,420,628 | $ 37,712,752 |

- See Accompanying Notes to the Consolidated Financial Statements -

## 1. Nature of Operations and Going Concern

Roca Mines Inc. (the "Company") engages principally in the exploration, development and mining of resource properties in North America. The Company maintains a wholly-owned subsidiary, Minera ROK, S.A. de C.V. to hold potential property interests in Mexico. The Company's wholly-owned subsidiary, FortyTwo Metals Inc., operates the Max Molybdenum Mine southeast of Revelstoke British Columbia, which is a producer of molybdenite concentrates exported under the terms of an offtake agreement. The Max Molybdenum Mine is currently not operational due to ground stability events encountered subsequent to August 31, 2010.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the year ended August 31, 2010, the Company reported a loss of $14,239,676 and an accumulated deficit of $38,241,710 at that date. The Company had a working capital deficit of $2,315,399 and cash and cash equivalents at August 31, 2010 amounted to $162,357. 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. 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 *(see Note 14)*.

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

## 2. Significant Accounting Policies

### a) Basis of Preparation

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

### b) Adoption of New Accounting Policies

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

i) Section 3064 – *Goodwill and Intangible Assets* replaces sections 3062 and 3450 and establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

ii) Emerging Issues Committee ("EIC") Abstract 173 - *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* provides guidance on evaluating credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments.

## 2. Significant Accounting Policies - *Continued*

iii) EIC Abstract 174 - *Mining Exploration Costs* provides guidance on the accounting and the impairment review of exploration costs.

The adoption of these new accounting standards did not have a significant impact on the amounts reported or disclosures in the Company's financial statements.

c) **Accounting Developments**

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.

ii) 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.

d) **Cash and Cash Equivalents**

Cash and cash equivalents are classified as held for trading and recorded at fair value with changes in fair value recorded in net income. The Company considers cash and cash deposits held at banks and cash equivalents as financial instruments issued or guaranteed by major financial institutions and governments that have an original maturity date of 90 days or less.

e) **Marketable Securities**

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

f) **Accounts Receivable**

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

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

g) **Resource Properties Costs**

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

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

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

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

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

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

h) **Property, Plant and Equipment**

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

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

i) **Inventories**

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

j) **Impairment of Long-lived Assets**

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

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

k) **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.

l) **Foreign Exchange**

The Company's foreign currency holdings are translated into Canadian dollars using the temporal method as follows:

- Monetary assets and liabilities at the exchange rate at period-end;
- Non-monetary assets and liabilities at historical exchange rates;
- Income and expense items at exchange rates prevailing at the transaction date except for depreciation and amortization which are recorded at historical rates.

Exchange gains and losses are recognized in net income in the period in which they are incurred.

The Company's subsidiaries are considered integrated foreign operations and their results and financial positions are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated into Canadian dollars using period-end exchange rates. Non-monetary items are translated at rates prevailing at acquisition or transaction dates. Expense items are translated into Canadian dollars at the rate of exchange in effect at the date of the related transaction. Foreign exchange translation gains and losses are recorded in net income.

m) **Asset Retirement Obligations**

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

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

n) **Income Taxes**

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

## 2. Significant Accounting Policies - *Continued*

### o) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

### p) Share Capital

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

### q) Stock-Based Compensation

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

### r) Earnings (Loss) per Share

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

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

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

The Company recognizes METC amounts and applies those amounts against deferred exploration costs when the Company’s application for tax credits is approved by Canada Revenue Agency.

## 3. Inventories

| Details are as follows: | | **August 31, 2010** | | August 31, 2009 |
|---|---|---|---|---|
| Consumable parts and supplies | **$** | **369,211** | $ | 301,985 |
| Work in Progress | | **-** | | 63,734 |
| Product inventory | | **178,799** | | 316,073 |
| Total | **$** | **548,010** | $ | 681,792 |

## 4. Property, Plant and Equipment

Details are as follows:

| | | 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** |

| | | Cost | | Accumulated Amortization, and Depletion | | **August 31, 2009 Net Book Value** |
|---|---|---|---|---|---|---|
| Mine property and development costs | $ | 35,424,004 | $ | 25,716,056 | **$** | **9,707,948** |
| Plant and equipment | | 18,055,983 | | 16,317,952 | | **1,738,031** |
| Buildings and support facilities | | 6,145,231 | | 5,367,583 | | **777,648** |
| Construction in progress | | 977,940 | | - | | **977,940** |
| Acquisition – MAX property | | 920,460 | | 818,944 | | **101,516** |
| Asset retirement costs *(Note 8)* | | 1,259,079 | | 1,259,079 | | **-** |
| | $ | 62,782,697 | $ | 49,479,614 | **$** | **13,303,083** |

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 (Write-off) | **Total August 31, 2010** | Total August 31, 2009 |
|---|---|---|---|---|---|
| MAX Molybdenum Mine *(a)* | $ - | $ 872,905 | $ - | $ **872,905** | $ 1,042,398 |
| Nuevo Milenio Gold-Silver project*(b)* | - | 464,580 | (464,580) | **-** | 32,141 |
| Foremore VMS-Gold Project *(c)* | 583,219 | 5,988,287 | - | **6,571,506** | 6,550,823 |
| SeaGold Project *(d)* | (70,250) | 73,359 | 21,891 | **25,000** | 15,000 |
| | $ 512,969 | $ 7,399,131 | $ (442,689) | $ **7,469,411** | $ 7,640,362 |

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

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

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

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

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

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

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

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

## 6. Shareholder's Equity

### a) Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value. At August 31, 2010 there were 93,164,898 common shares outstanding.

In the prior fiscal year, the Company completed a private placement for gross proceeds of $2,435,000 in two tranches. 9,740,000 units were issued at a price of $0.25, each consisting of one common share and one common share purchase warrant, each warrant entitling the holder to acquire one additional common share until January 27, 2011 (as to 5,600,000 warrants) or February 13, 2011 (as to 4,140,000 warrants) at a price of $0.35 per common share. Cash finders' fees totalling $173,200 were paid, and 66,000 agent warrants were issued in connection with this offering, the agent warrants exercisable until January 27, 2011, at $0.35 per common share.

The prorated fair value of the unit warrants issued was calculated to be $764,396 on the grant date and is accounted for as a reduction to proceeds from the common shares (to $1,670,604) with the offsetting entry to contributed surplus. The total fair value of warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | *Tranche 1* | *Tranche 2* | *Agent Warrants* |
|---|---|---|---|
| Number of warrants | 5,600,000 | 4,140,000 | 66,000 |
| Average risk-free interest rate | 1.35% | 1.22% | 1.35% |
| Expected dividend yield | Nil | Nil | Nil |
| Expected stock price volatility | 118.54% | 104.14% | 118.54% |
| Average expected life | 2 years | 2 years | 2 years |

### 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 years ended August 31, 2009 and August 31, 2010.

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 |

### 6. Shareholder's Equity - *Continued*

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.

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.

For the year ended August 31, 2009, a total of $575,520 (2008 - $3,782,546) in stock based compensation was recognized, of which $404,148 was expensed (2008 - $1,412,276), with the remaining balances capitalized. The offsetting entries are to contributed surplus.

During the year ended August 31, 2009, 906,000 stock options were exercised by directors of the Company for proceeds of $214,200. The fair value of the options exercised during the year was calculated to be $150,905 which amount has been transferred to share capital from 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 August 31, 2009 and the changes for the years 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 | |

| Number Outstanding August 31, 2008 | Exercised | Forfeited or Expired | **Number Outstanding August 31, 2009** | Exercise Price Per Share | Expiry Date |
|---|---|---|---|---|---|
| 367,000 | (246,000) | (121,000) | **-** | $0.20 | 11-Dec-08 |
| 660,000 | (660,000) | - | **-** | $0.25 | 24-Aug-09 |
| 750,000 | - | - | **750,000** | $0.25 | 18-Oct-10 |
| 2,455,000 | - | - | **2,455,000** | $1.45 | 19-Feb-12 |
| 1,625,000 | - | - | **1,625,000** | $3.55 | 15-Nov-12 |
| 1,575,000 | - | (50,000) | **1,525,000** [1] | $2.25 | 21-Aug-13 |
| 7,432,000 | (906,000) | (171,000) | **6,355,000** | $2.04 | |

Note 1: As of August 31, 2009, 762,500 of this series had vested. A total of 5,592,500 options were exercisable at August 31, 2009 at an average price of $2.01.

### 6. Shareholder's Equity - *Continued*

#### c) Warrants

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.

During the year ended August 31, 2009, a total of 250,000 warrants and 15,000 agent warrants were exercised for gross proceeds of $87,500 and $5,250 respectively. The fair value of the warrants exercised was calculated to be $25,412 and the agent warrants $1,730, which amounts have been transferred to share capital from contributed surplus.

A summary of the changes for the years ended August 31, 2010 and August 31, 2009 are 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 | |

| Number Outstanding August 31, 2008 | Expired | Granted | Exercised | **Number Outstanding August 31, 2009** | Exercise Price Per Share | Expiry Date |
|---|---|---|---|---|---|---|
| 7,142,857 | (7,142,857) | - | - | **-** | $2.25 | 6-Sep-08 |
| 1,212,121 | (1,212,121) | - | - | **-** | $2.25 | 28-Sep-08 |
| 2,351,750 | (2,351,750) | - | - | **-** | $4.00 | 7-Aug-09 |
| - | - | 5,600,000 | (250,000) | **5,350,000** | $0.35 | 27-Jan-11 |
| - | - | 66,000 | (15,000) | **51,000** | $0.35 | 27-Jan-11 |
| - | - | 4,140,000 | - | **4,140,000** | $0.35 | 13-Feb-11 |
| 10,706,728 | (10,706,728) | 9,806,000 | (265,000) | **9,541,000** | $0.35 | |

#### d) Normal Course Issuer Bid

In May of 2008, the Company received approval to repurchase up to a maximum of 4,078,500 outstanding common shares in the Company through the facilities of the TSX Venture Exchange (the "Exchange") until June 1, 2009. Pursuant to the policies of the Exchange, the Company was permitted to repurchase through open market purchases, up to 2 per cent of its outstanding common shares in any given 30-day period. The Company purchased a total of 1,460,700 common shares under its normal course issuer bid during September and October of 2008. The Company returned to treasury and cancelled these shares and allocated $859,054 to share capital and $644,000 to deficit. There were no further purchases during the year and the issuer bid expired on June 1, 2009.

## 7. Reclamation Bonds

At August 31, 2010, reclamation bonds totalling $758,900 were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

| | | **August 31, 2010** | | August 31, 2009 |
|---|---|---|---|---|
| MAX Molybdenum Project | $ | **730,000** | $ | 730,000 |
| Foremore Project | | **22,900** | | 22,900 |
| Other projects | | **6,000** | | 15,000 |
| Total | $ | **758,900** | $ | 767,900 |

## 8. Asset Retirement and Mine Closure Obligations

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

| | | **August 31, 2010** | | August 31, 2009 |
|---|---|---|---|---|
| Balance – Beginning of Period | $ | **1,184,592** | $ | 1,400,224 |
| Accretion | | **53,089** | | 62,508 |
| Change in reclamation estimate | | **(103,293)** | | (278,140) |
| Balance – End of Period | $ | **1,134,388** | $ | 1,184,592 |

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 year ended August 31, 2010, contract fees and bonuses of $94,700 (2009 - $142,896) were paid or accrued to a company controlled by a former director and per-diem consulting fees of $19,500 (2009 - 10,850) were paid or accrued to a director of the Company.

b) During the year ended August 31, 2010, the Company was reimbursed for rent and office expenses totalling $43,926 (2009 - $33,853) by a company with common management.

c) As at August 31, 2010, current liabilities include $117,600 (2009 - $124,760) 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:

| | For the Years Ended | | | |
|---|---|---|---|---|
| | | **August 31, 2010** | | August 31, 2009 |
| Loss before income taxes | **$** | **(2,846,496)** | $ | (29,306,364) |
| Canadian federal and provincial income tax rate | | **29.00%** | | 30.17% |
| Income tax recovery based on above rates | | **(825,484)** | | (8,841,730) |
| Increase (decrease) due to: | | | | |
| Non-deductible expenses for tax purposes | | **133,048** | | 101,037 |
| Statutory tax rate change and other | | **536,969** | | 703,526 |
| BC Mineral tax | | **(35,390)** | | (2,821,110) |
| Write-down of future income tax asset | | **11,584,037** | | - |
| Income tax expense (recovery) | **$** | **11,393,180** | $ | (10,858,277) |
| Consists of: | | | | |
| Current BC Mineral tax expense | **$** | **(105,651)** | $ | 178,966 |
| Write-down of future income tax asset | | **11,584,037** | | - |
| Future income and BC Mineral tax recovery | | **(85,206)** | | (11,037,243) |
| | **$** | **11,393,180** | $ | (10,858,277) |

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:

| | | **August 31, 2010** | | August 31, 2009 |
|---|---|---|---|---|
| *Future income and mineral tax assets* | | | | |
| Non-capital loss carry forwards | **$** | **1,323,676** | $ | 809,529 |
| Share issue costs | | **154,785** | | 334,614 |
| Resource property costs | | **1,636,068** | | 532,647 |
| Property, plant and equipment | | **9,310,839** | | 10,694,536 |
| Other | | **301,831** | | 407,530 |
| Asset retirement obligation | | **392,093** | | 409,540 |
| Total future income and mineral tax assets | | **13,119,292** | | 13,188,396 |
| Valuation Allowance | | **(11,598,105)** | | (3,000) |
| Net future income and mineral tax assets | **$** | **1,521,187** | $ | 13,185,396 |
| *Future income and mineral tax liabilities* | | | | |
| Inventory | **$** | **5,544** | $ | 102,539 |
| Total future income and mineral tax liabilities | **$** | **5,544** | $ | 102,539 |
| Net Future income and mineral tax asset | **$** | **1,515,643** | $ | 13,082,857 |

## 10. Income Taxes - *continued*

c) In respect of Canadian and Mexican operations, the Company has non-capital losses for tax purposes of $5,249,681 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 |
| | $ | 5,249,681 |

## 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*

The carrying amounts of financial instruments approximate fair value as of August 31, 2010 as shown below:

| **Financial Assets** | | **Carrying and Fair Values** |
|---|---|---|
| Cash and cash equivalents | $ | 162,357 |
| Trade accounts receivable | $ | 536,310 |
| Marketable securities | $ | 7,500 |
| Reclamation bonds | $ | 758,900 |
| **Financial Liabilities** | | |
| Accounts payable and accrued liabilities | $ | 4,095,997 |
| Due to related parties | $ | 117,600 |
| Other long term liabilities | $ | 13,766 |

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.

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

| | | **stated in $US** | | **stated in $MX** |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 577 | $ | 8,382 |
| Trade Receivables | | 505,748 | | - |
| Total | $ | 506,325 | $ | 8,382 |

### 12. Financial Instruments – *Continued*

At August 31, 2010, the Company's financial assets held in US dollars and Mexican pesos were:

| | | stated in $US | | stated in $MX |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 203,358 | $ | - |
| Total | $ | 203,358 | $ | - |

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 $35,000 in net loss respectively for year ended August 31, 2010. Variations in the Mexican peso would result in an insignificant change in net loss for year ended August 31, 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 August 31, 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.

*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, 2010, the fair value of the embedded derivative in the provisionally priced sales agreement was a credit of US$189,591 (2009-$1,631,329) or Cdn$197,175 (2009-$1,781,411). Sales and receivables for the year ended August 31, 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 year ended August 31, 2010. As at August 31, 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.

## 14. Subsequent Events

On November 12, 2010, the Company closed a private placement for gross proceeds of $5.1 million through the issuance of 20.4 million units at a price of $0.25 cents per unit. Each unit issued consists of one common share and one-half of a common share purchase warrant. Each full warrant entitles the holder to purchase an additional common share of the company at a price of $0.30 through November 12, 2011. A total of $223,000 in cash is to be paid and 1,248,800 warrants issued to various finders in connection with this financing, the finder's warrants also exercisable through November 12, 2011, at $0.30 per common share.