MANAGEMENT DISCUSSION & ANALYSIS

For the year ended July 31, 2010

Directors and Officers as at October 25, 2010:

Directors:

Gary Arca
Robert Eadie
Dave Gunning
Cory Kent
Arturo Prestamo
Jordan Estra
Ken Sumanik
Federico Villaseñor

Officers:

President – Ralf Kleine
Chief Executive Officer – Robert Eadie
Chief Financial Officer – Gary Arca
Chief Operating Officer – Dave Gunning
Corporate Secretary – Cory Kent

Contact Name:	Gary Arca
Contact e-mail address:	garca@starcore.com
TSX Symbol:	SAM

Form 51-102-F1

STARCORE INTERNATIONAL MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended July 31, 2010

1. Date of This Report

This MD&A is prepared as of October 25, 2010.

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Starcore International Mines Ltd. ("Starcore", or the "Company") for the year ended July 31, 2010. **Monetary amounts throughout this MD&A are shown in thousands of Canadian dollars, unless otherwise stated.**

This MD&A includes certain statements that may be deemed "forward-looking statements". Such statements and information include without limitation: statements regarding timing and amounts of capital expenditures and other assumptions; estimates of future reserves, resources, mineral production and sales; estimates of mine life; estimates of future mining costs, cash costs, minesite costs and other expenses; estimates of future capital expenditures and other cash needs, and expectations as to the funding thereof; statements and information as to the projected development of certain ore deposits, including estimates of exploration, development and production and other capital costs, and estimates of the timing of such exploration, development and production or decisions with respect to such exploration, development and production; estimates of reserves and resources, and statements and information regarding anticipated future exploration; the anticipated timing of events with respect to the Company's minesite and; statements and information regarding the sufficiency of the Company's cash resources. Such statements and information reflect the Company's views as at the date of this document and are subject to certain risks, uncertainties and assumptions, and undue reliance should not be placed on such statements and information. Many factors, known and unknown could cause the actual results to be materially different from those expressed or implied by such forward looking statements and information. Such risks include, but are not limited to: the volatility of prices of gold and other metals; uncertainty of mineral reserves, mineral resources, mineral grades and mineral recovery estimates; uncertainty of future production, capital expenditures, and other costs; currency fluctuations; financing of additional capital requirements; cost of exploration and development programs; mining risks, risks associated with foreign operations; risks related to title issues; governmental and environmental regulation; the volatility of the Company's stock price; and risks associated with the Company's forward sales derivative strategies. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

2. Overall Performance

Description of Business

Starcore is engaged in exploring, extracting and processing gold and silver through its wholly-owned subsidiary, Compañia Minera Peña de Bernal, S.A. de C.V. ("Bernal"), which owns the San Martin mine in Queretaro, Mexico. The Company is a public reporting issuer on the Toronto Stock Exchange ("TSX"). The Company is also engaged in owning, acquiring, exploiting, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company has interests in properties which are exclusively located in Mexico.

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the year ended July 31, 2010, the cash flow generated from operations and from share issuances was exceeded by cash used in repaying the loan payable and in investing activities by $194 bringing the Company's cash balance to $824 with a working capital deficiency of $9,422 (see below). While these financial statements have been prepared in accordance with the Canadian Generally Accepted Accounting Principles ("Canadian GAAP") applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions, there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement ("Agreement") with Investec Bank (U.K.) Limited ("Investec"), as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2010, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. In accordance with reporting requirements, the Company will notify Investec and will determine the steps required to rectify the default. As a result of failing to meet this debt covenant, the Company is in default of certain provisions of the Agreement. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues satisfactorily with Investec. Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59. This reclassification does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

Management continues working to achieve efficiencies and improved cash flow at the mine and is exploring all opportunities available to the Company to ensure its future success including pursuing efforts to diversify the Company's resource property holdings through acquisition and merger opportunities. While management believes the Company will be able to continue operations in the future, given the uncertainty of the above and other items, there is no assurance that the Company will be able to meet all of its operating costs, forward contract sales, capital expenditures and debt payments in the coming fiscal year. (See also Section 6 - Liquidity, Commitments and Going Concern).

Restatement

Management of the Company determined, in consultation with its auditors, that some transactions required restatement to better reflect the substance of these transactions in relation to Canadian GAAP. The most significant change is as follows:

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. Originally, it was determined that these gold sales contracts are excluded from the definition of derivatives because the forward sales agreement allowed the obligation to be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of sales contracts in accordance with the Company's revenue recognition policy. As the Company has consistently settled the obligation through the payment of cash, with the view that this is the more cost effective method of settlement, these gold sales contracts do meet the definition of derivatives and changes in market value are recorded in income as they occur.

Additionally, management has determined that certain foreign exchange gains were incorrectly reported as other comprehensive income gains and should have been stated as a foreign exchange gain on the consolidated statement of operations. The amount of $699 has been reclassified to foreign exchange gain from foreign currency translation adjustment under other comprehensive income.

As a result of the above, the audited consolidated financial statements as at July 31, 2009 have been restated. The Company believes the restatement largely represents a change in the presentation of its accounts and the accounting treatment of the transactions and does not affect the business or operations of the Company.

The effect of the restatement of the July 31, 2009 financial statements is as follows:

		As Previously Presented		**As Restated**
Consolidated Statements of Operations and Other Comprehensive Income:				
Revenue	$	24,050	$	26,556
Earnings from mining operations		5,172		7,678
Income before other items and income taxes		2,656		5,162
Foreign exchange gain (loss)		(624)		75
Net realised and unrealised gain (loss) on forward contracts		-		1,349
Income before income taxes		2,378		6,932
Foreign tax expense		(817)		(817)
Future income tax expense		(650)		(1,730)
Net income		911		4,385
Foreign currency translation adjustment		2,164		679
Comprehensive income for the year		3,075		5,064
Basic income per share		0.02		0.07
Diluted income per share		0.01		0.04
Consolidated Balance Sheet:				
Current portion of forward contract obligations	$	-	$	3,241
Forward contract obligations		-		9,273
Future income taxes		8,617		5,113
Accumulated other comprehensive loss		(586)		(2,188)
Deficit		(17,585)		(24,993)
Consolidated Statements of Cash Flows:				
Total cash provided by operating activities	$	2,988	$	3,687
Effect of foreign currency translation on cash		1,431		732
Consolidated Statements of Shareholders Equity:				
Opening Accumulated Comprehensive Income, August 1, 2008	$	(2,750)	$	(2,867)
Opening Deficit, August 1, 2008		(18,496)		(29,378)

Recent Events

On March 26, 2010, Mr. Jordan Estra was appointed as Chairman and director of the Company. Mr. Estra joins the company with over 39 years experience in the fields of finance and strategic planning. Formerly a leading research analyst and global metals/mining team leader for a number of major investment banks, including SG Warburg (now UBS), Merrill Lynch and BT Alex Brown (now Deutsche Bank), Mr. Estra is Managing Director, Private Equity at Sutter Securities Incorporated, focused on raising capital for emerging natural resource companies. Mr. Estra began his career in the resources industry, at AMAX Inc., a global natural resources leader with interests in precious metals, copper, lead, zinc, coal, oil & gas, molybdenum, tungsten and iron ore. Mr. Estra held a number of positions in Finance, Marketing and Strategic Business Development.

Mr. Estra is also a Director of Searchlight Minerals Corp. and Ensurge, Inc., both publicly traded companies in the mining and metals industry.

Mr. Estra graduated with High Distinction from Babson College (International Economics) and with Honors from the Columbia University Graduate School of Business (Finance). He served in the United States Army (Medical Corps) and has been a member of the American Institute of Mining, Metallurgical and Petroleum Engineers, the Foreign Policy Association, the New York Society of Security Analysts and the Stock & Bond Club of South Florida. He holds Series 6, 7, 24, 57 and 58 securities licenses.

On October 7, 2010, Ralf Kleine was appointed President of the Company, with overall responsibility for the day-to-day operations at the San Martin Mine in Queretaro, Mexico.

Prior to his appointment, Mr. Kleine served as the Company's technical consultant at San Martin, and a member of the Technical Advisory Board. Formerly President of Asamera Minerals Inc., his strong background and over 40 years of extensive experience in developing and bringing 13 mines to production in Canada, the USA, Mexico, and Latin America are the cornerstones of Mr. Kleine's career. Mr. Kleine received his early education in Germany and came to Canada in 1956 where he started his mining career in the Red Lake Camp of Ontario. After completing Engineering and Management courses, he was granted registration as a Professional Mining Engineer in Ontario and Alberta. He has since published several technical mining papers in the CIMM Bulletin, the Canadian Mining Journal and the Engineering and Mining Journal. Mr. Kleine is a life-time member of the CIM and resides in Mexico.

3. Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

		July 31, 2010		July 31, 2009 (Restated – See Section 2)		July 31, 2008 (Restated – See Section 2)
Revenues	**$**	**23,201**	$	26,556	$	28,721
Cost of Sales		**13,765**		18,878		23,761
Earnings from mining operations		**9,436**		7,678		4,960
Administrative Expenses		**2,798**		2,516		4,280
Income (loss) before extraordinary items						
(i) Total income (loss)	**$**	**(3,728)**	$	4,385	$	(11,962)
(ii) Income (loss) per share - basic	**$**	**(0.05)**	$	0.07	$	(0.20)
(iii) Income (loss) per share - diluted	**$**	**(0.05)**	$	0.04	$	(0.20)
Net loss						
(i) Total income (loss)	**$**	**(3,728)**	$	4,385	$	(11,962)
(ii) Income (loss) per share - basic	**$**	**(0.05)**	$	0.07	$	(0.20)
(iii) Income (loss) per share - diluted	**$**	**(0.05)**	$	0.04	$	(0.20)
Total assets	**$**	**45,170**	$	46,256	$	47,261
Total long-term liabilities	**$**	**17,242**	$	18,438	$	26,133

4. Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the audited consolidated financial statements of the Company and notes attached thereto for the year ended July 31, 2010.

4.1 San Martín Mine, Queretaro, Mexico

On February 1, 2007, the Company completed the acquisition of Bernal, the owner and operator of the San Martin Mine in Queretaro, Mexico, from Luismin S.A. de C.V. ("Luismin"), a wholly owned subsidiary of Goldcorp, Inc. (the "Acquisition"). In connection with the Acquisition, the Company paid US$24 million and issued 4,729,600 common shares to Luismin. Bernal became a subsidiary of the Company's subsidiary, Starcore Mexicana, S.A. de C.V. with the completion of the Acquisition.

Reserves

The San Martin Mine, an ISO 9001 certified facility located approximately 50km east of the City of Queretaro, State of Queretaro, Mexico, consists of mining concessions covering 12,992 hectares and includes seven underground mining units and three units under exploration, as well as an additional exploration property, San Pedrito, located 50 km west of San Martin. Luismin has been operating the mine since 1993 and Starcore will continue to operate the mine over an expected mine life of at least 12 years based on conversion of known resources. Mining at San Martin over the past ten years has been at a rate of approximately 267,000/tonnes per year. Exploration is able to maintain approximately three years reserves replacing those mined with new reserves.

As of July 31, 2009, reserves and resources at San Martin as reported in "*RESERVES AND RESOURCES IN THE SAN MARTIN MINE, MEXICO AS OF JULY 1, 2009*", dated August 29, 2009, prepared by David R. Gunning, P.Eng. and Ben Whiting, P. Geo. (the "Technical Report"), were as follows:

Classification	Tonnes (000's)	Gold (g/t)	Silver (g/t)	Gold (000's of oz)	Silver (000's of oz)	Gold Equiv. (000's of oz)
Reserve:						
San Martin Mine						
Proven	301	2.42	15	23	145	25.5
Probable	462	3.38	38	50	564	58.3
Total Reserve	**763**			**73**	**709**	**83.8**
Resource:						
San Martin Mine						
Inferred	1,570	3.65	40	184	2,019	213
Total Resource	**2,333**			**257**	**2,728**	**296.8**

- Total Proven and Probable Mineral Reserves estimated are 762,936 tonnes at a grade of 3.00 g Au/t and 29 g Ag/t., using cut-off grades based on total operating costs of US$34.33/t and cut off values for silver of US$10.00 per troy ounce and for gold of US$700 per troy ounce;
- The total Inferred Mineral Resources estimated and not included in the Mineral Reserves stated above are about 1.57 million tonnes at an approximate grade of 3.65 g Au/t and 40 g Ag/t; and,
- A 69:1 silver to gold equivalency ratio was used to calculate gold equivalent ounces.

See the Technical Report, available on SEDAR, for further information on the San Martin Mine.

Production

The following table is a summary of mine production statistics for the San Martin mine for the three and six months ended July 31, 2010 and the cumulative amounts for the year ended January 31, 2010.

(Unaudited)	*Unit of measure*	**Actual results for 3 months ended July 31, 2010**	**Actual results for 6 months ended July 31, 2010**	**Actual results for 12 months ended January 31, 2010**
Production of Gold in Dore	*thousand ounces*	**3.5**	**7.0**	**19.3**
Production of Silver in Dore	*thousand ounces*	**34.2**	**72.1**	**170.7**
Equivalent ounces of Gold	*thousand ounces*	**4.0**	**8.1**	**21.9**
Silver to Gold Equivalency Ratio		**66:1**	**66:1**	**66:1**
Gold grade	*grams/tonne*	**1.95**	**1.94**	**2.45**
Silver grade	*grams/tonne*	**29**	**29**	**34**
Gold recovery	*percent*	**87%**	**86%**	**90%**
Silver recovery	*percent*	**57%**	**59%**	**58%**
Milled	*thousands of tonnes*	**64.1**	**131.3**	**273.0**
Mine development, preparation and exploration	*meters*	**1,234**	**2,154**	**4,697**
Operating Cost per tonne milled	*US dollars/tonne*	**39**	**38**	**32**
Operating Cost per Equivalent Ounce	*US dollars/ounces*	**630**	**606**	**419**
Number of employees and contractors at minesite		**284**	**264**	**268**

During the quarter ended July 31, 2010, the mill operated at a rate of approximately 697 milled tonnes/calendar day. Gold and silver grades were 1.95 g/t and 29 g/t, respectively, compared to prior quarter grades of 1.93 g/t and 29 g/t. Overall equivalent gold production of 4,000 ounces was lower than the previous quarter production of 4,100 ounces due mainly to decreased production of 64,100 tonnes compared to 67,200 in the prior quarter ended April 30, 2010; however, slightly higher gold grades helped to reduce the impact of decreased production.

Production costs of the mine for the current quarter were higher at US$630/EqOz compared to the average of US$419/EqOz for the twelve months ended January 31, 2010. The increase is due mainly to the significantly lower ore grade as compared to the prior twelve month period. The Company's cost savings measures implemented at the mine level are continuing as indicated by cost per tonne at US$39/t in the current quarter, however lower production and increased costs have caused an increase compared to the cost per tonne for the three months ended April 30, 2010 of US$36/t and US$32/t for the twelve month period ended January 31, 2010. The mine plan has been developed to ensure the mine is properly developed and mined so as to ensure a constant supply of ore in accordance with currently planned production capacity and ore grades over the next 3 years. Changes to the plan that may involve increased production and capital investment are continually being assessed by Starcore management. Currently, the Company is continuing underground exploration in order to identify higher grade ore zones and has allocated a budget to support year long exploration.

During the quarter ended July 31, 2010, the Company incurred approximately US$729 in mine capital expenditures, which includes mine development drifting and drilling, machinery and equipment leases and purchases and construction and tailings dam remediation, compared to US$967 in the prior quarter.

In addition to the Company's mining operations at San Martin, Starcore has agreements to purchase concentrate ore from two surrounding mines and charges a processing and marketing fee as a reduction of purchase price paid based on assays of the concentrate. These agreements are not binding and may be cancelled or renegotiated based on changing operating conditions. During the year ended July 31, 2010 and the year ended July 31, 2009, the purchased concentrate has been reduced significantly for the sixth quarter in a row due to production stoppage at La Guitarra mine which began in October, 2008. The Company has started processing ore for La Guitarra in May 2010 on a limited basis.

Sales of Metal produced by the milled ore from the mine, along with purchased ore concentrate, over the July 31, 2010 quarter of operations approximated 3,603 ounces of gold and 50,000 ounces of silver sold at average prices in the period of US$1,206 and US$18 per ounce, respectively. The sales of metal over the year ended July 31, 2010 approximated 17,343 ounces of gold and 181,876 ounces of silver sold at average prices in the period of US$1,105 and US$17 per ounce, respectively.

The gold average price realized, however, is effectively reduced compared to market prices, due to the sale of 3,297 ounces of gold for the three months and 13,436 ounces for the twelve months, pursuant to existing gold sales contracts which are fixed at US$731 per ounce, payable based on the month end London Metals Exchange spot gold price. The losses realized on these gold sales contracts, reported separately on the Company's statement of operations, amounted to US$1,583 and US$5,117 for the three and twelve months ended July 31, 2010. The Company has forward sales remaining at July 31, 2010 of 34,768 ounces at the rate of approximately 1,159 ounces per month until January 31, 2013.

4.2 Property Activity

San Martin properties – Queretaro, Mexico

The San Martin mine properties are comprised of mining concessions covering 12,992 hectares, including the San Pedrito property located approximately 50km west of the San Martin mine. In addition to the ongoing mine exploration and development that is currently being performed in development of the mine, management is continually assessing the potential for further exploration and development of the San Martin properties and continually modifying the exploration budget accordingly. The mine operates three underground drill rigs to provide information to assist with mine planning in addition to exploration, with the intent of increasing the reserves and resources on the property.

The proposed drill program for Calendar 2010 is expected to be approximately 11,000 meters, compared to 10,000 meters completed in 2009.

David Gunning, P.Eng., a director of the Company and Chief Operating Officer, is the Company's qualified person on the project as required under NI 43-101.

Mineral Property – Cerro de Dolores

The Company entered into an option agreement effective December 15, 2003, and amended July 23, 2007, with Wheaton River Minerals Ltd. and two of Wheaton's subsidiaries, Luismin and Compañia Minera Astumex, S.A. de C.V. (collectively, "Goldcorp") for the acquisition of up to an 80% interest in the Cerro de Dolores property (the "Agreement") subject to a 3% net smelter return royalty.

In order to exercise an initial option and acquire a 51% interest in the property, the Company must issue a total of 250,000 post consolidation common shares and incur US$1.4 million in exploration expenditures on the property over a four year period ending June 23, 2010.

Proposed Exploration Program and Future Plans

As at July 31, 2010 the Company has incurred approximately US$475 in direct work expenditures on the property. At July 31, 2010, the Company was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp. No exploration costs were incurred during the years ended July 31, 2010, 2009 and 2008, as a result, management has written off $806 of mineral property and deferred exploration costs during the year ended July 31, 2010.

4.3 Results of Operations

The Company recorded net loss for the year ended July 31, 2010 of $3,728 as compared with a net income of $4,385 for the year ended July 31, 2009. The details of the Company's operating results and related revenues and expenses are as follows:

For the year ended July 31,	2010	2009 (Restated)	Variance
Revenues			
Mined ore	$ 22,046	$ 21,351	$ 695
Purchased ore	1,155	5,205	(4,050)
	23,201	26,556	(3,355)
Cost of Sales			
Mined Ore	10,728	11,273	(545)
Purchased ore	1,054	5,079	(4,025)
Reclamation and closure	(134)	121	(255)
Amortization and depletion	2,177	2,405	(288)
	(13,765)	(18,878)	5,113
Earnings from mining operations	9,436	7,678	1,758
Administrative Expenses			
Amortization	47	58	(11)
Stock-based compensation	379	(114)	493
Interest on long-term debt	282	553	(271)
Accretion on long-term debt	148	260	(112)
Financing fees	52	-	52
Professional and consulting fees	309	488	(179)
Management fees and salary	436	352	84
Office, travel and administration	870	646	224
Shareholder relations	240	247	(7)
Transfer agent and regulatory fees	35	26	9
	(2,798)	(2,516)	(282)
Income before other income (expense) and taxes	6,638	5,162	1,476
Other income (expense)			
Foreign exchange gain (loss)	(43)	75	(118)
Investment and interest income	4	346	(342)
Write-down of mineral property	(806)	-	(806)
Net realized and unrealized gain (loss) on forward contracts	(9,873)	1,349	(11,222)
Foreign income taxes	(1,662)	(817)	(845)
Future income tax recovery (expense)	2,014	(1,730)	3,744
Net income (loss) for the period	$ (3,728)	$ 4,385	$ (8,113)

Revenues included sales of gold and silver at average monthly market prices and based on gold sales contracts as discussed under *section 4.1 - "production"* above. The Company also earned a net profit of $101 from the purchase and sale of ore concentrate from surrounding mines. The cost of sales above includes non-cash recovery for reclamation of $134, and amortization and depletion of $2,177 which is calculated based on the units of production from the mine over the expected mine production as a denominator. This calculation is based solely on the San Martin mine proven and probable reserves and a percentage of inferred resources in accordance with the Company's policy of recognizing the value of expected Resources which will be converted to Proven and Probable Reserves, as assessed by management.

The period of operations to July 31, 2010, produced earnings from mine operations of $9,436 compared to $7,678 for the year ended July 31, 2009. While ore grades for the twelve months ended July 31, 2010 averaging 2.16 g/t gold and 31 g/t of silver were reduced from the comparative period and despite mined ore amounts being lower due to reduced production tonnage, ore revenue was higher due to higher ore prices; however, overall revenue was lower due to reduced production of purchased ore. In addition costs were higher at an average operating cost of US$520/EqOz for the twelve months ended July 31, 2010, compared to an average operating cost of US$420/EqOz in the twelve months ended July 31, 2009; however, as a result of reduced production levels, the mined ore costs reported were $545 lower at $10,728 as compared to the year ended July 31, 2009. Also included in mined ore costs in the current period is non-cash stock based compensation expense of $78 for the year ended July 31, 2010 compared to recovery of $54 for the year ended July 31, 2009. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant.

Corporate administrative expenses for the year ended July 31, 2010, resulted in the following significant changes from the year ended July 31, 2009:

- Professional and consulting fees of $309 and management fees and salary of $436, representing a decrease of $179 and an increase of $84, respectively due to higher salaries and to decreased use of consultants;
- Interest expense on long term debt decreased by $271 to $282 due to lower average debt outstanding in the period and a reduced interest rate;
- Foreign exchange gain reduced by $118 to a loss of $43 for the year ended July 31, 2010 due to the stabilization of the MXN peso in relation to the US$, the functional currency of the mining operations; and
- Current income tax expense $1,662 and future income recovery of $2,014 include non-cash adjustments at the consolidation of the entities to account for differences between the tax and the accounting base of assets and liabilities. Taxes payable by the Company are subject to Mexican tax laws which are changing. These estimates reflect the best estimate of tax liability by the Company based on the existing interpretation of these laws.
- See section 2 for discussion of net realized and unrealized gain on forward contracts. The significant increase in the loss of $11,222 is due to the increase in gold prices from $936 at July 31, 2009 to $1,180 at July 31, 2010.

As reported in Section 2, the Company has changed its method of accounting for the forward sales agreements for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. Originally, it was determined that these gold sales contracts are excluded from the definition of derivatives because the forward sales agreement allowed the obligation to be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of sales contracts in accordance with the Company's revenue recognition policy. As the Company has consistently settled the obligation through the payment of cash, with the view that this is the more cost effective method of settlement, these gold sales contracts do meet the definition of derivatives and changes in market value are recorded in income as they occur. The effect on the July 31, 2009 consolidated financial statements is presented in Section 2. The effect on the net income for the year ended July 31, 2010 was to record a loss for the unrealized forward contracts outstanding as at July 31, 2010 (34,768 ounces to January 31, 2013 settled at US$731 per ounce), net of the future tax benefit. Under the previous method of accounting for these forward sales agreements, the Company would have reported "*Earnings from mining operations*" of $4,054 instead of $9,436 due to $5,382 of realized forward sales payments made which were reclassified to "*Net realized and unrealized gain (loss) on forward contracts*", and the Company would have reported "*Net income (loss) for the year*" of $(829) instead of $(3,728) due to $2,899 of unrealized forward sales losses, calculated net of future income tax benefits, which are based on the change in the value of the forward sales agreements existing at July 31, 2010 from the July 31, 2009 value of those agreements. As stated above, the increased liability from valuing these unrealized forward sales agreements and, consequentially, the loss incurred, results from the increase in gold prices from $936 at July 31, 2009 to $1,180 at July 31, 2010.

Cash flow from operating activities was $3,540 during the year ended July 31, 2010, compared to $3,687 for the year ended July 31, 2010. The effect on cash provided by operations, of increased in earnings from mining operations as discussed above was reduced by an increase in amounts paid to settle the Company's forward contract obligations, an increase in foreign taxes paid and the classification of the Company's GIC from cash equivalent to a short term investment. Cash flow from operating activities is determined by removing non-cash expenses from the net income and adjusting for non-cash working capital amounts. Overall cash and equivalents decreased during the year ended July 31, 2010 by $194 in the year compared to a decrease of $1,872 in the comparative year ended July 31, 2009, due mainly to the inflows of funds from financing activities in the current year ended July 31, 2010 (see "Financings" below).

Investor Relations Activities

During the year ended July 31, 2010, the Company responded directly to investor inquiries.

Financings, Principal Purposes & Milestones

During the year ended July 31, 2010, the Company completed a non-brokered financing for proceeds of $2.2 million. The financing was in the form of 22,000,000 Units at $0.10 per Unit, each Unit comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 to November 26, 2010 and January 22, 2011. The $2.2 million proceeds from the financing were allocated to the shares and warrants, pro rata, using the market value of the shares and the fair value of the warrants. As a result, share capital increased by $1,816 and warrants increased by $384.

A finder's fee applied in this transaction in the form of a cash commission of $129 and 1,842,500 non-transferable Agent Warrants, each Agent Warrant entitling the holder to acquire one common share of the Company at a price of $0.15 to November 26, 2010. Share issue costs include $144 allocated to the fair value of Agents' Warrants. The fair value of the Agent's warrants was allocated pro rata to the share and warrant components of the Units, as such Share capital was reduced by $119 and warrants were reduced by $25.

5. Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	Q4 31-Jul-10	Restated – See Section 2 Q3 30-Apr-10	Restated – See Section 2 Q2 31-Jan-10	Restated – See Section 2 Q1 31-Oct-09	Restated – See Section 2 Q4 31-Jul-09	Restated – See Section 2 Q3 30-Apr-09	Restated – See Section 2 Q2 31-Jan-09	Restated – See Section 2 Q1 31-Oct-08
Total Revenue	$ 5,402	$ 5,933	$ 6,039	$ 5,826	$ 7,792	$ 5,940	$ 5,876	$ 6,949
Earnings from mining operations	$ 1,981	$ 1,931	$ 2,876	$ 2,647	$ 3,126	$ 1,528	$ 1,746	$ 1,279
Net Income (loss)	$ 707	$ (2,753)	$ (11)	$ (1,671)	$ 1,194	$ 744	$ 22	$ 2,425
Per share – basic	$ 0.01	$ (0.03)	$ (0.00)	$ (0.03)	$ 0.02	$ 0.01	$ 0.00	$ 0.04
Per share – diluted	$ 0.01	$ (0.03)	$ (0.00)	$ (0.03)	$ 0.01	$ 0.01	$ 0.00	$ 0.02

Discussion

The Company reports income for the quarter of $707 compared to income of $1,194 in the prior quarter ended July 31, 2009. The earnings from mining operations were lower due mainly to a temporary increase in administrative expenses relating to office, travel and miscellaneous. For more detailed discussion on the quarterly production results and financial results for the quarter ended July 31, 2010, please refer to *Sections 4.1 and 4.3 under "Results of Operations"*.

6. Liquidity, Commitments and Going Concern

The Company expects to continue to receive income and cash flow from the mining operations at San Martin (*section 4.1*). Management expects that this will result in sufficient working capital and liquidity to the Company.

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the year ended July 31, 2010, the cash flow generated from operations and from share issuances was exceeded by cash used in repaying the loan payable and in investing activities by $194 bringing the Company's cash balance to $824 with a working capital deficiency of $9,422 (see below). While these financial statements have been prepared in accordance with the Canadian GAAP applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions, there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Agreement with Investec, as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2010,the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. In accordance with reporting requirements, the Company will notify Investec and will determine the steps required to rectify the default. As a result of failing to meet this debt covenant, the Company is in default of certain provisions of the Agreement. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues satisfactorily with Investec. Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59. This restatement does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

Management continues working to achieve efficiencies and improved cash flow at the mine and is exploring all opportunities available to the Company to ensure its future success including pursuing efforts to diversify the Company's resource property holdings through acquisition and merger opportunities. While management believes the Company will be able to continue operations in the future, given the uncertainty of the above and other items, there is no assurance that the Company will be able to meet all of its operating costs, forward contract sales, capital expenditures and debt payments in the coming fiscal year. During the year ended July 31, 2010, the Company completed a private placement for proceeds of $2,200.

The Company has the following commitments:

a) A term of the Loan financing requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2010, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at July 31, 2010, is approximately US$585 in accordance with the Loan repayment schedule. The Company used all but $49 of this account to fund loan principal payments during the year ended July 31, 2008. The Company is required to refund the DSRA as soon as excess operating funds are available from mine operations. The principal due over the next twelve months ended January 31, 2011 is $1,270 and is in addition to the funding of the DSRA.

b) In addition to funding of the DSRA account, as stated above, principal due over future fiscal years are as follows:

Principal due for the fiscal year ended:		
July 31, 2011	$	**1,270**
2012		**2,138**
2013		**1,471**
	$	**4,879**

c) As at July 31, 2010, the Company has management contracts to officers and directors totaling $300 per year, payable monthly, expiring in January, 2013.

d) The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 34,768 ounces to January 31, 2013, as at July 31, 2010 was negative US$15,883 (July 31, 2009 - US$11,614) based on a gold value of US$1,180 per ounce (July 31, 2009 – US$936).

7. Capital Resources

The capital resources of the Company are the mining interests, plant and equipment, with an amortized historical cost of $40,538 as at July 31, 2010, respectively. The Company is committed to further expenditures of capital required to maintain and to further develop the San Martin mine which management believes will be funded directly from the cash flow of the mine. In addition, the Company is committed to capital expenditures required to maintain Mineral properties in good standing, as detailed in *Section 4*.2.

8. Off Balance Sheet Arrangements

In conjunction with the Acquisition, the Company has agreed to grant Goldcorp Inc. a security interest over the Bernal mining properties as collateral to ensure that Bernal maintains an agreement to sell all silver produced from the mine to Goldcorp Inc. until October, 2029, at the prevailing spot market rate at the time of the silver sale.

9. Transactions with Related Parties

There were no material reportable Related Party transactions.

10. Fourth Quarter

Due to mine operating activity upon the acquisition of the San Martin mine discussed throughout this MD&A and as detailed in Section 4.1, the operations and activities are similar to previous quarters.

11. Proposed Transactions

Subsequent to July 31, 2010, the Company acquired a subsidiary, 1794598 Ontario Inc., which owns a Mexican company that has significant Mexican tax assets, including Mexican VAT tax benefits. The Company acquired this subsidiary for $300 payable as to $100 on signing the agreement and $100 each in May, 2011 and May 2012.

12. Critical Accounting Estimates

The financial statements of the Company have been prepared in accordance with Canadian GAAP.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of these financial statements requires management to make estimates and assumptions. The most significant ones include, but are not limited to: the recoverability of amounts receivable; mining asset economic life and expected life of mine, including estimated recoverable tonnes of ore from the mine; quantities of proven and probable gold reserves; the value of mineralized material beyond proven and probable reserves; future costs and expenses to produce proven and probable reserves; future commodity prices and foreign currency exchange rates; the estimated realizable value of inventories; the future cost of asset retirement obligations; the anticipated costs of reclamation and closure cost obligations; the amounts of contingencies; and assumptions used in the accounting for employee stock options such as volatility, expected term and risk free interest rate. Using these estimates and assumptions, management makes various decisions in preparing the financial statements including:

- The treatment of mine development costs as either an asset or an expense;
- Whether long-lived assets are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize or record future income tax assets and liabilities;
- The useful lives of long-lived assets and the measurement of amortization;
- The fair value of asset retirement obligations;
- The likelihood of loss contingencies occurring and the amount of any potential loss;
- The value of stock-based compensation expense
- Whether investments are impaired; and
- The amount of stock option expense.
- Financial instruments

As the estimation process is inherently uncertain, actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the financial statements. The accounting policies of the Company as presented in notes 2, 9 and 13 of the Company's July 31, 2010 audited consolidated financial statements should be reviewed in conjunction with the critical estimates identified by management above.

Management has identified the following critical accounting policies and estimates as described in the Notes mentioned above:

Mining interests, plant and equipment

Mining interests represent capitalized expenditures related to the development of mining properties and related plant and equipment. Depletion of mine properties is charged on a unit-of-production basis over proven and probable reserves and a portion of resources expected to be converted to reserves. Depreciation of plant and equipment is calculated using the straight-line method, based on the lesser of economic life or expected life of mine. At the end of each calendar year estimates of proven and probable gold reserves and a portion of resources expected to be converted to reserves are updated and the calculations of amortization of mining interest, plant and equipment are prospectively revised.

Costs related to property acquisitions are capitalized. When it is determined that a property is not economically viable, the capitalized costs are written off.

Mining expenditures incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized. Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be continued. Mine development costs incurred to maintain current production are included in operations. Exploration costs relating to the current mine in production are expensed to net income as incurred due to the immediate exploitation of these areas or an immediate determination that they are not exploitable.

Upon sale or abandonment, the cost of the property and equipment and related accumulated depreciation or depletion, are removed from the accounts and any gains or losses thereon are included in operations.

The Company reviews and evaluates its mining interests, plant and equipment for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

Reclamation and closure cost obligations

The Company's mining and exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. The Company has recorded a liability for the estimated reclamation and closure, including site rehabilitation and long-term treatment and monitoring costs, discounted to net present value. Such estimates are, however, subject to change based on negotiations with regulatory authorities, or changes in laws and regulations.

The Company has adopted the *CICA Handbook Section 3110 "asset retirement obligations"* which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standards apply to legal obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. The standards require that a liability for an asset retirement obligation be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life.

The liability will be increased in each accounting period by the amount of the implied interest ("accretion") inherent in the use of discounted present value methodology, and the increase will be charged against earnings or capitalized as appropriate.

Income taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

Stock-based compensation

The Company uses the fair value based method for all stock-based awards granted on or after August 1, 2003 and to account for the grants as stock-based compensation expense in the statement of operations and comprehensive loss.

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's shares, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate, as determined at the grant date. The estimated fair value of awards of stock-based compensation are charged to expense over their vesting period, with offsetting amounts recognized as contributed surplus. Options granted to consultants are revalued each vesting date, using the Black Scholes model, and charged over the remaining vesting period accordingly. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Forward contract obligations

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. As the Company has consistently settled the obligation through the payment of cash, with the view that this is more cost effective than the physical delivery of gold, these gold contracts meet the definition of derivatives and classified as held for trading. As a result of this classification under Canadian GAAP, changes in market value are recorded in income as they occur. The fair value of the remaining gold sales contracts for the sale of 34,768 ounces to January 31, 2013, as at July 31, 2010 was negative US$15,883 (July 31, 2009 – US$11,614) based on a gold value of US$1,180 per ounce (July 31, 2009 – US$936). Changes in these assumptions can materially affect the fair value estimate.

13. Changes in Accounting Policies Including Initial Adoption

In January 2009, the CICA issued Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations, and Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which replace Section 1600 – Consolidated Financial Statements. These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. As well acquisition costs are not part of the consideration and are to be expensed when incurred. These new sections are not expected to have a material impact on the Company's financial condition or operating results.

Restatement

Management of the Company determined, in consultation with its auditors, that some transactions required restatement to better reflect the substance of these transactions in relation to Canadian GAAP. The most significant change is as follows:

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. Originally, it was determined that these gold sales contracts are excluded from the definition of derivatives because the forward sales agreement allowed the obligation to be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of sales contracts in accordance with the Company's revenue recognition policy. As the Company has consistently settled the obligation through the payment of cash, with the view that this is the more cost effective method of settlement, these gold sales contracts do meet the definition of derivatives and changes in market value are recorded in income as they occur.

Additionally, management has determined that certain foreign exchange gains were incorrectly reported as other comprehensive income gains and should have been stated as a foreign exchange gain on the consolidated statement of operations. The amount of $699 has been reclassified to foreign exchange gain from foreign currency translation adjustment under other comprehensive income.

As a result of the above, the audited consolidated financial statements as at July 31, 2009 have been restated. The Company believes the restatement largely represents a change in the presentation of its accounts and the accounting treatment of the transactions and does not affect the business or operations of the Company.

The effect of the restatement of the July 31, 2009 financial statements is as follows:

	As Previously Presented	As Restated
Consolidated Statements of Operations and Other Comprehensive Income:		
Revenue	$ 24,050	$ 26,556
Earnings from mining operations	5,172	7,678
Income before other items and income taxes	2,656	5,162
Foreign exchange gain (loss)	(624)	75
Net realised and unrealised gain (loss) on forward contracts	-	1,349
Income before income taxes	2,378	6,932
Foreign tax expense	(817)	(817)
Future income tax expense	(650)	(1,730)
Net income	911	4,385
Foreign currency translation adjustment	2,164	679
Comprehensive income for the year	3,075	5,064
Basic income per share	0.02	0.07
Diluted income per share	0.01	0.04
Consolidated Balance Sheet:		
Current portion of forward contract obligations	$ -	$ 3,241
Forward contract obligations	-	9,273
Future income taxes	8,617	5,113
Accumulated other comprehensive loss	(586)	(2,188)
Deficit	(17,585)	(24,993)
Consolidated Statements of Cash Flows:		
Total cash provided by operating activities	$ 2,988	$ 3,687
Effect of foreign currency translation on cash	1,431	732
Consolidated Statements of Shareholders Equity:		
Opening Accumulated Comprehensive Income, August 1, 2008	$ (2,750)	$ (2,867)
Opening Deficit, August 1, 2008	(18,496)	(29,378)

14. Financial and Other Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

In the normal course of business, the Company’s assets, liabilities and forecasted transactions are impacted by various market risks, including currency risks associated with inventory, revenues, cost of sales, capital expenditures, interest earned on cash and the interest rate risk associated with floating rate debt.

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. At July 31, 2010 the company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos:

	In '000 of CDN Dollars		In '000 of Mexican Pesos (MP)	
Cash and cash equivalents	$	249	MP	40
Other working capital amounts - net	$	851	MP	(6,951)
Long-term Liabilities	$	-	MP	33,392

At July 31, 2010 US dollar amounts were converted at a rate of $1.028 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP12.636 to $1 US Dollar.

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 34,768 ounces to January 31, 2013, as at July 31, 2010 was negative US$15,883 (July 31, 2009 - US$11,614) based on a gold value of US$1,180 per ounce (July 31, 2009 – US$936)

15. Other

15.1 Disclosure of Outstanding Share Capital as at October 25, 2010

	Number	Book Value
Common Shares	**82,690,789**	**$34,909**

During the year ended July 31, 2009, all of the outstanding stock options were forfeited by holders. During the year ended July 31, 2010, the Company granted directors, officers, employees and consultants incentive stock options, entitling them to purchase up to 10,300,000 common shares at $0.15 and $0.21 per share for 5 years. 860,000 of these stock options were forfeited during the period.

Subsequent to July 31, 2010, the Company granted 750,000 options to purchase shares to a newly appointed president. The options are exercisable at $0.15 per share until October 6, 2015. Additionally, the Company cancelled, 400,000 options following the termination of an employee.

There were 32,078,500 share purchase warrants outstanding as at July 31, 2010 with an average exercise price of $0.54 per warrant and with expiry dates from February, 2010 to January, 2013, with a possibility of the Loan Tranche B warrants being extended to February, 2013.

15.2 Disclosure Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and forms.

Internal Controls Over Financial Reporting

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

There has been no change in the Company's internal control over financial reporting during the Company's year ended July 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Restatement

During the process of preparing the annual financial statements for the year ended July 31, 2010, management of the Company determined, in consultation with its new auditors, PricewaterhouseCoopers LLP, that some transactions required restatement to better reflect the substance of these transactions in relation to Canadian. The most significant changes related to the restatement of the unrealized losses on the forward sales agreements and the treatment of foreign exchange gains, which is discussed in Section 2 and Note 3 to the audited consolidated financial statements.

As a result of the above, the audited consolidated financial statements as at July 31, 2009 have been comprehensively restated. The Company believes the restatement largely represents a change in the presentation of its accounts and the accounting treatment of the transactions and does not affect the business or operations of the Company. In respect of the restatement of the foreign exchange gains, management has determined that there was a breakdown in procedural controls which has been identified, corrected and will be properly controlled in the future. In respect of the restatement of the unrealized losses on forward sales agreements, management believes that the previous treatment was considered in relation to managements interpretations of the facts and was made in consultation with the previous auditors to ensure compliance with Canadian GAAP. Based on the restatements, the CEO and the CFO have concluded that the Company's internal controls over financial reporter were not wholly effective prior to July 31, 2009.

15.3 Additional disclosure

The Company capitalizes all expenditures relating to the exploration of its mineral properties. Details of mineral properties and deferred exploration costs for the properties are as follows:

	July 31, 2010	July 31, 2009
Cerro de Dolores - Actual Expenditures		
Acquisition costs	**$ 177**	$ 177
Assaying & sampling	**53**	53
Consulting fees (Geological & Engineering)	**168**	168
Drilling	**113**	113
Field work, equipment & rental	**31**	31
General & admin	**88**	88
Labour	**28**	28
Legal fees, licenses, maps & reports	**8**	8
Property taxes	**18**	18
Road construction	**33**	33
Site visits	**51**	51
Travel & transportation	**38**	38
Total Mineral Properties and Deferred Exploration Costs	806	806
Write-down of mineral property	(806)	-
Total Mineral Properties and Deferred Exploration Costs	**$ -**	$ 806