Starcore International Mines Ltd.

Consolidated Financial Statements

July 31, 2009

BDO Dunwoody LLP
Chartered Accountants

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Auditors' Report

To the Shareholders of
Starcore International Mines Ltd.

We have audited the Consolidated Balance Sheets of Starcore International Mines Ltd. as at July 31, 2009 and 2008 and the Consolidated Statements of Operations and Other Comprehensive Income (Loss), Cash Flows and Shareholders' Equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
October 23, 2009

Starcore International Mines Ltd.
Consolidated Balance Sheets
(in thousands of Canadian dollars)

July 31,	2009	2008
Assets		
Current		
Cash and cash equivalents (notes 3, 12 and 13a)	**$ 1,018**	$ 2,890
Amounts receivable (note 4)	**1,697**	2,664
Inventory (note 5)	**974**	1,517
Prepaid expenses and advances	**492**	1,090
	4,181	8,161
Mining interest, plant and equipment (note 6)	**41,269**	38,294
Mineral properties and deferred exploration costs (note 7)	**806**	806
	$ 46,256	$ 47,261
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 1,729**	$ 4,953
Current portion of loan payable (note 8)	**6,692**	2,173
	8,421	7,126
Loan payable (notes 8 and 13)	**-**	6,304
Reclamation and closure cost obligations (note 9)	**1,489**	1,708
Other long-term liabilities (note 10)	**2,563**	2,190
Future income taxes (note 16)	**8,617**	7,674
	21,090	25,002
Shareholders' Equity		
Share capital (note 11)	**33,318**	33,318
Contributed surplus (note 11)	**6,660**	6,828
Warrants (notes 8 and 11)	**3,359**	3,359
Accumulated other comprehensive loss	**(586)**	(2,750)
Deficit	**(17,585)**	(18,496)
	25,166	22,259
	$ 46,256	$ 47,261

Commitments (notes 7, 8, 9, 10, 11, and 13)
Segmented information (note 14)
Nature of Operations and Going Concern (note 1)

Approved by the Directors:

"Robert Eadie" Director ***"Gary Arca"*** Director

The accompanying notes form an integral part of these financial statements.

Starcore International Mines Ltd.
Consolidated Statements of Operations and Other Comprehensive Income (Loss)
(in thousands of Canadian dollars except per share amounts)

For the year ended July 31,		2009		2008
Revenues (notes 12 and 13)				
Mined ore	$	**18,845**	$	16,545
Purchased concentrate		**5,205**		10,521
		24,050		27,066
Cost of Sales				
Mined Ore		**11,273**		11,258
Purchased concentrate		**5,079**		10,240
Reclamation and closure (note 9)		**121**		123
Amortization and depletion		**2,405**		2,140
		18,878		23,761
Earnings from mining operations		**5,172**		3,305
Administrative Expenses				
Amortization		**58**		45
Stock-based compensation (note 11)		**(114)**		843
Interest on long-term debt (note 8)		**553**		766
Accretion on long-term debt (note 8)		**260**		157
Professional and consulting fees		**488**		402
Management fees and salary		**352**		622
Office, travel and administration		**646**		875
Shareholder relations		**247**		531
Transfer agent and regulatory fees		**26**		39
		2,516		4,280
Income (loss) before other income and income taxes		**2,656**		(975)
Other income				
Foreign exchange loss		**(624)**		(511)
Investment and interest income		**346**		138
Income (loss) before income taxes		**2,378**		(1,348)
Foreign taxes expense (note 16)		**(817)**		(137)
Future income tax expense (note 16)		**(650)**		(1,082)
Net income (loss) for the year		**911**		(2,567)
Other Comprehensive income (loss):				
Foreign currency translation adjustment		**2,164**		(795)
Comprehensive income (loss) for the year	**$**	**3,075**	$	(3,362)
Basic income (loss) per share	**$**	**0.02**	$	(0.04)
Diluted income (loss) per share	**$**	**0.01**	$	(0.04)
Basic weighted average number of shares outstanding		**60,690,789**		60,687,237
Diluted weighted average number of shares outstanding		**97,929,646**		60,687,237

The accompanying notes form an integral part of these financial statements.

Starcore International Mines Ltd.
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

For the year ended July 31,		2009		2008
Cash provided by (used in)				
Operating activities				
Income (loss) for the year	$	911	$	(2,567)
Items not involving cash				
Amortization and depletion		2,463		2,185
Stock-based compensation		(168)		1,281
Accretion on long-term debt		260		157
Employee profit sharing (note 10)		287		461
Reclamation and closure cost accretion (note 9)		121		123
Future income tax		649		1,082
Other		(4)		(2)
Change in non-cash working capital items				
Prepaid expenses and advances		705		164
Amounts receivable		887		(1,056)
Inventory		493		(390)
Accounts payable and accrued liabilities		(3,616)		2,211
Total cash provided by operating activities		2,988		3,649
Financing activities				
Loan payable		(2,675)		(4,032)
Total cash used in financing activities		(2,675)		(4,032)
Investing activities				
Mining interest, plant and equipment net of disposals		(3,616)		(5,585)
Total cash used in investing activities		(3,616)		(5,585)
Effect of foreign currency translation on cash		1,431		(214)
Net decrease in cash and cash equivalents		(1,872)		(6,182)
Cash and cash equivalents, beginning of year		2,890		9,072
Cash and cash equivalents, end of year	$	1,018	$	2,890
Supplementary disclosure of cash flow information				
Cash paid for:				
Interest	$	553	$	766
Income taxes	$	817	$	22

Non-cash transactions - note 11

The accompanying notes form an integral part of these financial statements.

Starcore International Mines Ltd.
Consolidated Statement of Shareholders' Equity for the years ended July 31, 2009 and 2008
(in thousands of Canadian dollars, except for number of shares)

	Shares	Amount	Contributed Surplus	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total
Balance 1, 2007	60,590,789	$ 33,266	$ 2,704	$ 6,202	$ (1,955)	$ (15,929)	$ 24,288
Issued pursuant to Cerro de Dolores Property Option Agreement	100,000	52	-	-	-	-	52
Stock-based compensation	-	-	1,281	-	-	-	1,281
Cancellation/expiry of warrants	-	-	2,843	(2,843)	-	-	-
Foreign currency translation and change in value of available-for-sale securities	-	-	-	-	(795)	-	(795)
Net loss for the year	-	-	-	-	-	(2,567)	(2,567)
Balance July 31, 2008	60,690,789	33,318	6,828	3,359	(2,750)	(18,496)	22,259
Stock-based compensation	-	-	(168)	-	-	-	(168)
Foreign currency translation	-	-	-	-	2,164	-	2,164
Net income for the year	-	-	-	-	-	911	911
Balance July 31, 2009	**60,690,789**	**$ 33,318**	**$ 6,660**	**$ 3,359**	**$ (586)**	**$ (17,585)**	**$ 25,166**

The accompanying notes form an integral part of these financial statements.

1. Nature of Operations and Going Concern

Starcore International Mines Ltd. (the "Company" or "Starcore") is engaged in exploring, extracting and processing gold and silver on February 1, 2007 the Company acquired Compañia Minera Peña de Bernal, S.A. de C.V. ("Bernal"), which owns the San Martin mine in Queretaro, Mexico, from Luismin S.A. de C.V. ("Luismin"), a wholly owned subsidiary of Goldcorp, Inc. (the "Acquisition"). Pursuant to the Acquisition the Company paid US$24 million or $28,248 and issued 4,729,600 common shares to Luismin at a fair value of US$2 million or $2,365 based upon the TSX trading value of the Company's shares at the date of the Agreement. The San Martin mine has been in operation since 1993 producing gold and silver and represents the purchase of a self sustaining mining operation in Mexico for the Company. 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, 2009, the cash used in repaying the loan payable and in investing activities exceeded the cash flow generated from operations by $1,872 bringing the Company's cash balance to $1,018 with a working capital deficiency of $4,240 (See below). 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 and continued delivery of purchased concentrate 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") (Note 8), as required by the Agreement. As at the quarter ended January 31, 2009, however, 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%. This represented a default under the Agreement with Investec. The Company received a waiver of this default from Investec at April 30, 2009 on the condition that the Company obtain additional financing by June 30, 2009. Due, in part, to the strengthening of both the US Dollar in relation to the Mexican Peso and of the Canadian Dollar in relation to the US Dollar, the working capital ratio was corrected by June 30th, 2009 and July 31, 2009 and, as a result, the Company may or may not be in default of certain provisions of the Agreement. Investec has also 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 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. To date, the Company has been working 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. Due to the uncertainty regarding the Agreement status, management believes it would be conservative to reclassify the Loan as current on the balance sheet. This reclassification is made to conform to the requirements of EIC-122 and EIC-59 and in no way affects 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 principle, 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.

1. Nature of Operations and Going Concern – (cont'd)

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.

These financial statements have been prepared on the basis that the Company will continue as a going concern. No adjustments have been made to reflect the effect on the consolidated balance sheet and consolidated statements of operations and other comprehensive loss and cash flows should this assumption be incorrect and the Company forced to liquidate its assets realize its liabilities prematurely.

2. Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The financial statements have in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

Use of Estimates

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 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; mining interest, plant and equipment; and mineral properties and deferred exploration costs are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize future income tax assets;
- The useful lives of long-lived assets and the measurement of amortization;
- The fair value of reclamation and closure cost obligations;
- The likelihood of loss contingencies occurring and the amount of any potential loss; and
- The amount of stock-based compensation expense.

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.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Canadian and Mexican subsidiaries. All significant inter-company transactions and balances have been eliminated.

2. Summary of Significant Accounting Policies – (cont'd)

Revenue recognition

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to the buyer, collection is reasonably assured and the price is reasonably determinable. Revenue is recorded from gold and silver dore sales at the time of physical delivery, which is also the date that title to the gold or silver passes. The sales price is determined on the delivery date based on either the terms of gold sales contracts or the gold and silver spot prices.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with maturities at point of purchase of 3 months or less. The Company places its cash and cash equivalents with institutions of high credit worthiness.

Inventories

Work-in-process inventories and finished goods (dore inventory) are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour, mine site overhead expenses and depreciation and depletion of mining interests. Supplies are valued at the lower of average cost or replacement cost.

Foreign currency translation

For accounting purposes, the US dollar is regarded as the Company's functional currency, and therefore consolidated financial statements are prepared in US dollars using the temporal method under which monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date, and equity, income, expenses and non-monetary balances are translated at the exchange rate in effect at the times of the underlying transactions. Gains or losses arising from this translation are included in income (loss) for the year.

For the purpose of reporting in Canadian dollars, the financial statements are translated as follows: all assets and liabilities at the exchange rate in effect at the balance sheet date; income and expenses at the rates in effect on the transaction dates. The resulting exchange gains or losses are shown as a separate component of shareholders' equity and do not affect reported earnings or losses.

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 and corporate office equipment, vehicles, software and leaseholds is calculated using the straight-line method, based on the lesser of economic life or expected life of mine. At the end of the 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 is 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.

2. Summary of Significant Accounting Policies – (cont'd)

Mining interests, plant and equipment – (cont'd)

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 completion of 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 and carrying value. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

Mineral properties and deferred exploration costs

Mineral properties consist of exploration and mining concessions, options and contracts which are not currently being exploited in mining operations. The Company defers the cost of acquiring, maintaining its interests, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value.

Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing certain of its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on an annual basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values. The amounts recorded are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recorded amounts.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Environmental expenditures that relate to current operations are expensed or capitalized as follows: Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated.

(in thousands of Canadian dollars unless otherwise stated)

2. Summary of Significant Accounting Policies – (cont'd)

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 liability for such costs exists from the time the legal obligation first arises, not when actual expenditures are made in the future. 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 as appropriate.

Basic and diluted income (loss) per share

The Company follows the treasury stock method to calculate loss per common share. Under this method, the basic loss per share is calculated using the weighted average number of common shares outstanding during each period.

The diluted income (loss) per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period.

Details of the numerator and denominator used in the calculation of earnings per share are as follows:

	July 31, 2009	July 31, 2008
Numerator		
Net income (loss) for the year	**$ 911**	$ (2,567)
Denominator		
Weighted average shares outstanding - basic	**60, 690,789**	60,687,237
Effect of dilutive securities – warrants and options	**37,238,857**	-
Denominator for diluted EPS	**97,929,646**	60,687,237

Given the exercise price of the Company's stock options and warrants outstanding exceeded the market price of the Company's shares on the exchange throughout the year ended July 31, 2008, shares issuable on exercise of stock options and warrants totalling 45,108,679 were not included in the computation of diluted income (loss) per share since the impact would be antidilutive.

2. Summary of Significant Accounting Policies – (cont'd)

Income taxes

Income taxes are accounted for using the liability 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 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, 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.

Financial Instruments

a) Recognition and Measurement (*CICA Handbook Section 3855*)

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.

- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earning in the period in which they arise.

2. Summary of Significant Accounting Policies – (cont'd)

Financial Instruments – (cont'd)

The Company has classified its financial instruments as follows:

- Cash and cash equivalents have been classified as held-for-trading.
- Amounts receivable (excluding value added tax and goods and services tax which are not financial instruments) have been classified as loans and receivables.
- Accounts payable and accrued liabilities and other long-term liabilities have been classified as other financial liabilities.
- Loans payable are classified as held-to-maturity. Deferred financing costs relating to the issuance detachable warrants with loans are presented as a discount to the loan value and accreted over the term of the Loan to net loss.

The Company's financial instruments are recorded at cost or amortized cost with the exception of the Company's cash and cash equivalents which are measured at fair value. The Company has chose to recognize all transaction costs in operations on all financial liabilities that have been classified as other than held for trading in accordance with EIC-166.

b) Comprehensive Income (*CICA Handbook Section 1530*)

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Other comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holdings gains and losses on available for sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations all of which are not included in the calculation of net earnings until realized. This standard requires the presentation of comprehensive income, and its components in a financial statement that is displayed with the same prominence as the other financial statements.

Accordingly, the Company reports a consolidated statement of comprehensive income (loss) with the consolidated statement of operations and includes the account "accumulated other comprehensive loss" on the consolidated statement of shareholders' equity and in the shareholders' equity section of the consolidated balance sheet.

Share issue costs

Share issue costs, which include commissions, professional and regulatory fees are charged directly to share capital.

Recently Adopted Canadian Accounting Standards

There are new CICA accounting standards that have been adopted by the Company effective August 1, 2008.

a) Effective August 1, 2008, the Company has adopted new accounting standard Section 1535, "Capital Disclosures", which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance (see note 15).

2. Summary of Significant Accounting Policies – (cont'd)

Recently Adopted Canadian Accounting Standards – (cont'd)

b) Effective August 1, 2008, the Company has adopted new accounting standard Section 3031 "Inventories", which requires the accounting treatment for inventories and provides guidance on the determination of inventory costs and their subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

c) Effective January 1, 2008, the Company adopted the CICA guidelines of Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation.* These standards replace CICA 3861, *Financial Instruments – Disclosure and Presentation.*

These standards increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. The quantitative disclosures must provide information about the extent to which the company is exposed to such risk, based on information provided internally to the entity's key management personnel (see note 12).

Recently Released Canadian Accounting Standards

Goodwill and Intangible Assets – Section 3064

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition measure, presentation and disclosure of goodwill and intangible assets and is effective for fiscal years beginning on or after October 1, 2008. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-Operating Period", will be withdrawn. The Company is currently assessing the impact of this standard on its consolidated financial statements.

Financial Statement Concepts – Section 1000

In February 2008, the CICA amended portions of Section 1000, "*Financial Statement Concepts*", which the CICA concluded permitted deferral of costs that did not meet the definition of an asset. The amendments apply to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of S.3064 and the amendments to Section 1000 for fiscal years beginning on or after October 1, 2008, capitalized amounts that no longer meet the definition of an asset will be expensed retrospectively. The Company is currently assessing the impact of this standard on its consolidated financial statements.

Business Combinations – Section 1582

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.

(in thousands of Canadian dollars unless otherwise stated)

2. Summary of Significant Accounting Policies – (cont'd)

Recently Released Canadian Accounting Standards – (cont'd)

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to the Company's fiscal years beginning on or after August 1, 2011. The transition date of August 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Comparative Information

Certain comparative amounts from the prior year have been reclassified to conform to the current year's presentation.

3. Cash and Cash Equivalents

Cash equivalents include Guaranteed Investment Certificates and/or Government of Canada Treasury bills with a market value of $407 (July 31, 2008 - $1,034) earning interest income at approximately 2% - 3.5% per annum and maturing on November 3, 2009. Substantially all of the Company's cash is held at three financial institutions and as such the Company is exposed to the risks of those financial institutions.

4. Amounts Receivable

	July 31, 2009	July 31, 2008
Value added tax and Goods and Services Tax	**$ 834**	$ 1,796
Customers	**825**	868
Other	**38**	-
	$ 1,697	$ 2,664

5. Inventory

	July 31, 2009	July 31, 2008
Dore	**$ 396**	$ 641
Work-in-process	**160**	160
Supplies	**418**	716
	$ 974	$ 1,517

(in thousands of Canadian dollars unless otherwise stated)

6. Mineral Interest, Plant and Equipment

		July 31, 2009				
		Cost		**Accumulated amortization and depletion**		**Net book value**
Mining interest	$	38,340	$	3,929	**$**	**34,411**
Plant and equipment		8,672		1,944		**6,728**
Corporate office equipment, vehicles, software and leaseholds		282		152		**130**
	$	**47,294**	**$**	**6,025**	**$**	**41,269**

		July 31, 2008				
		Cost		Accumulated amortization and depletion		Net book value
Mining interest	$	33,465	$	2,405	$	31,060
Plant and equipment		8,157		1,083		7,074
Corporate office equipment vehicles, software and leaseholds		254		94		160
	$	41,876	$	3,582	$	38,294

7. Mineral Properties and Deferred Exploration Costs

Cerro de Dolores, Mexico

The Company entered into an option agreement effective December 15, 2003, and amended July 23, 2007 with Wheaton River Minerals Ltd. (“Wheaton”) 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 (issued) common shares and incur US $1.4 million in exploration expenditures on the property over a six year period to June 2010. To July 31, 2009, the Company has incurred approximately US$475 in direct work expenditures on the property and was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp. No exploration costs were incurred during the year ended July 31, 2009 or 2008.

8. Loan Payable

Pursuant to the Acquisition of Bernal (note 1), the Company arranged a US$13 million bank Loan with Investec which is repayable quarterly and matures on April 30, 2013. The Loan bears interest at LIBOR plus 3%, subject to an increase to LIBOR plus 4% upon an event of default, which occurred as at the January 31, 2009 quarter end as discussed below, and is secured by all of the assets of Bernal, all of the shares of Bernal and Starcore Mexicana S.A. de C.V., wholly-owned subsidiaries of the Company, and by a guarantee from the Company. During the year ended July 31, 2009, the effective interest rate to the Company was 5.04% (July 31, 2008 – 5.8%). The Company has the right to repay the Loan at any time without penalty. The Loan consists of two Tranches as follows:

(in thousands of Canadian dollars unless otherwise stated)

8. Loan Payable – (cont'd)

a) Tranche A for US$8million is repayable as to interest and principal each three months with the balance due by July 31, 2010. In connection with the Tranche A Loan, the Company issued 12,442,000 detachable warrants ("Loan warrants") exercisable to acquire common shares of the Company at a price of $0.76 (or US$0.643) per share until April 30, 2011. The warrants are non-transferable, except by agreement of the Company, and are exercisable first to directly reduce the outstanding Loan balance at the rate of US$0.643 per warrant exercised and, once the Loan balance is repaid, for cash to the Company at the rate of $0.76 per warrant exercised. During the year ended July 31, 2009, the Company has made principle payments on the Tranche A Loan totaling US$2.28 million (July 31, 2008 – US$4.03 million).

b) Tranche B for US$5million is repayable as to interest and principal each three months beginning July 31, 2010 for principal, with the balance due by January 31, 2013. In connection with the Tranche B Loan, the Company issued 6,794,000 detachable warrants ("Loan warrants") exercisable to acquire common shares of the Company at a price of $0.87 (or US$0.736) per share until January 31, 2012. The warrants are non-transferable, except by agreement of the Company, and are exercisable first to directly reduce the outstanding Loan balance at the rate of US$0.736 per warrant exercised and, once the Loan balance is repaid, for cash to the Company at the rate of $0.87 per warrant exercised.

The Loan agreement also 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. The sales of approximately 1,135 ounces per month occur over the period of the Loan from February 28, 2007, to January 31, 2013. As at July 31, 2009, 48,204 (July 31, 2008 – 61,770) ounces remained under forward sales contracts.

The Loan is classified as a held-to-maturity liability ($13,867), less the portion relating to the conversion feature ($1,108) which is classified as an equity component. The Loan discount is difference between the face value of the original Loan, US$13,000 or $15,301 less portion of the loan classified as a liability, US$12,059 or $13,867. As a result, the recorded liability to repay the notes is lower than its face value. Using the effective interest rate method and the 11.0% implicit in the calculation, the difference of $1,108, characterized as the note discount is being charged to the consolidated statements of operations and comprehensive income (loss) and added to the liability over the term of the loan or as the Loan is repaid on a pro-rata basis. The accreted amount for the year ended July 31, 2009 was $260 (July 31, 2008 - $157).

	Tranche A Loan	Tranche B Loan	Discount	Total
Balance, July 31, 2007	$ 8,354	$ 5,333	$ (920)	$ 12,947
Payments made during the year	(4,032)	-	-	(4,032)
Discount accretion	-	-	157	157
Foreign exchange fluctuation	(430)	(204)	39	(595)
Balance, July 31, 2008	4,072	5,129	(724)	8,477
Payments made during the year	(2,675)	-	-	(2,675)
Discount accretion	-	-	260	260
Foreign exchange fluctuation	429	259	(58)	630
Balance, July 31, 2009	**$ 1,826**	**$ 5,388**	**$ (522)**	**$ 6,692**

(in thousands of Canadian dollars unless otherwise stated)

8. Loan Payable – (cont'd)

A summary of the Loans is as follows:

		July 31, 2009		July 31, 2008
Tranche A Loan	**$**	**1,826**	$	4,072
Tranche B Loan		**5,388**		5,129
		7,214		9,201
Less: Discount		**(522)**		(724)
		6,692		8,477
Less: Current portion		**(1,949)**		(2,173)
		4,743		6,304
Less: Reclass to current		**(4,743)**		-
Long-term portion	**$**	**-**	$	6,304

Principal due for the fiscal year ended:		
July 31, 2010		**2,100**
2011		**1,330**
2012		**2,240**
2013		**1,544**
	$	**7,214**

The current portion of the Loan Payable above of $1,949 reflects the scheduled payments required to July 31, 2010 under the existing Agreement and includes both the principle payments due over the next twelve months, totalling $2,100, and the discount which is to be accreted over the next twelve months, totalling $151.

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. As at the quarter ended January 31, 2009, however, 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%. This represented a default under the Agreement with Investec. The Company received a waiver of this default from Investec at April 30, 2009 on the condition that the Company obtain additional financing or otherwise rectify the default by June 30, 2009. Due, in part, to the strengthening of both the US Dollar in relation to the Mexican Peso and of the Canadian Dollar in relation to the US Dollar, the working capital ratio was corrected by June 30th, 2009 and July 31, 2009 and, as a result, the Company may or may not be in default of certain provisions of the Agreement. Investec has also 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 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. To date, the Company has been working 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. Due to the uncertainty regarding the Agreement status, management believes it would be conservative to reclassify the Loan as current on the balance sheet. This reclassification is made to conform to the requirements of EIC-122 and EIC-59 and in no way affects 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 principle, 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.

(in thousands of Canadian dollars unless otherwise stated)

9. Reclamation and Closure Cost Obligations

The Company's asset retirement obligations consist of reclamation and closure costs for mines. The present value of obligations is currently estimated at $1,489 (2008: $1,708) reflecting discounted payments assumed at the end of the mine life of 30,878 Mexican pesos ("MP") or $2,368 which the Company estimates calculated annually over 10 to 12 years. Such liability was determined using a credit-adjusted risk free rate of 8%, an inflation rate of 4%, and undiscounted cash flows required to settle the obligation is approximately $2,368.

Significant reclamation and closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

Changes to the reclamation and closure cost balance during the year are as follows:

		July 31, 2009		July 31, 2008
Balance, beginning of year	**$**	**1,708**	$	1,506
Accretion expense		**121**		123
Foreign exchange fluctuation		**(340)**		133
Revisions in assumptions, estimates and liabilities incurred		**-**		(54)
	$	**1,489**	$	1,708

10. Other Long – Term Liabilities

Under Mexican tax laws, the Company's Mexican subsidiary is required to remit 10% of taxable income to employees as statutory profit-sharing. The provision for profit-sharing is based on accounting income and the amounts will become payable as the Company's Mexican subsidiary earns taxable income.

11. Share Capital

a) Authorized

Unlimited common shares with no par value.

b) Shares issued

No shares were issued during the year ended July 31, 2009.

During the year ended July 31, 2008, the Company issued 100,000 common shares at $0.52 per share pursuant to the Cerro de Dolores property option agreement.

c) Options Outstanding

During the year ended July 31, 2009, all of the outstanding stock options were forfeited by holders. A summary of the Company's outstanding stock options as of July 31, 2009 and 2008 and the changes during the years then ended is presented below:

(in thousands of Canadian dollars unless otherwise stated)

11. Share Capital - (cont'd)

c) Options Outstanding

	Number of options	Weighted average exercise price
Outstanding at July 31, 2007	9,569,822	$0.89
Options granted	1,250,000	$0.78
Options cancelled/expired	(2,950,000)	$0.99
Outstanding at July 31, 2008	7,869,822	$0.84
Options forfeited	(7,869,822)	$0.84
Outstanding at July 31, 2009	**Nil**	**N/A**
Exercisable at July 31, 2009	**Nil**	**N/A**

d) Stock Based Compensation

The Company, in accordance with the policies of the Toronto Stock Exchange, is authorized to grant options to directors, officers, and employees to acquire up to 20% of the amount of common stock outstanding. Options may be granted for a maximum term of 5 years. Optioned shares will vest and may be exercised in accordance with the vesting provisions set out as follows:

(a) 1/3 of the options granted will vest six months after the grant date;
(b) A further 1/3 of the options granted will vest twelve months after the grant date;
(c) The remaining 1/3 of the options granted will vest eighteen months after the grant date.

The fair value of options granted during the past three fiscal years was estimated using the Black-Scholes option-pricing model with the following assumptions at date of grant:

	Year ended, July 31,	
	2009	2008
Number of options granted	n/a	1,250,000
Fair value	n/a	$576
Dividend Rate	n/a	$0
Risk free interest rate	n/a	4.28%
Expected life	n/a	5 years
Expected annual volatility	n/a	82%
Average strike price	n/a	$0.95
Weighted average fair value per option	n/a	$0.46

Due to the forfeiture of all stock options during the year ended July 31, 2009, the Company experienced a recovery of stock-based compensation of $168, which has been recorded in the statement of operations and debited to contributed surplus. During the year ended July 31, 2008 $1,281 was charged to the statement of operations and credited to contributed surplus due to the granting of stock options. Of these amounts, a recovery of $54 (2008 - $438 increase) has been recorded as a reduction (2008 – increase) to Cost of Sales – Mined ore and Administrative Expenses – Stock-based compensation was reduced by $114 (2008 – $843 increase).

(in thousands of Canadian dollars unless otherwise stated)

11. Share Capital - (cont'd)

e) Warrants Outstanding

Pursuant to the Loan financing, the Company issued 19,236,000 detachable warrants exercisable to acquire common shares of the Company. Of these warrants, 12,442,000 warrants are exercisable at a price of Cdn$0.76 (or US$0.643) per share until January 31, 2011, and 6,794,000 warrants are exercisable until January 31, 2012, at a price of Cdn$0.87 (or US$0.736), and for a further period of one year, if any of the Loan remains outstanding, at a price equal to the greater of Cdn$0.87 (or US$0.736) and 160% of the volume weighted average trading price of the Company's common shares for the five business days before January 31, 2012.

The fair value of the 19,236,000 warrants issued pursuant to the Loan was estimated to be $1,108 which was equal to the discount calculated on the Loan. This value of the 19,236,000 warrants has been recorded in the statement of operations and credited to warrants on the balance sheet.

The warrants issued in conjunction with the $18,700 private placement have been assigned a value of $4,474 or $0.25 per whole warrant. Warrants issued with the $1,000 private placement have been assigned a value of $237 or $0.28 per whole warrant. Private placement warrants were allocated a value based on an allocation of the financing proceeds which was pro-rated using the market value of the shares issued, combined with the fair value of the Warrants determined using a Black-Scholes model.

These amounts have been included in Warrants in the Shareholders' Equity section of the balance sheet.

During the year ended July 31, 2007, 390,000 share purchase warrants were exercised at $0.80 per share for proceeds of $312. The $93 fair value of these warrants was transferred from Warrants to share capital on exercise.

Pursuant to the $18,700 offering, the Company granted 879,840 agents warrants. Each full warrant is exercisable into one additional common share for one year at an exercise price of $0.80 per share. These warrants expired unexercised during the year ended July 31, 2008.

The fair value of the 879,840 agents' warrants issued pursuant to the offering was estimated to be $476 using the Black-Scholes option fair value pricing model using a risk free interest rate of 3.97% and volatility of 80% over a one year life at the $0.80 per share strike price. This amount has been recorded in share capital and credited to warrants on the balance sheet.

A summary of the Company's outstanding share purchase warrants at July 31, 2009 and July 31, 2008 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average Exercise price
Outstanding and exercisable at July 31, 2007	39,318,697	$ 0.80
Warrants cancelled/expired	(2,079,840)	$ 0.80
Outstanding and exercisable at July 31, 2009 and 2008	**37,238,857**	**$ 0.80**

During the year ended July 31, 2008, $2,843 representing the fair value of the 2,079,840 warrants cancelled was transferred from Warrants to Contributed Surplus.

(in thousands of Canadian dollars unless otherwise stated)

12. Financial 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. Cash and cash equivalents are carried at their fair value. The fair values of amounts receivable, and accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments. Based on a market price of LIBOR plus 6%, the fair value of the loan payable at July 31, 2009 was $6,450 (2008 - $8,407). Other than previously mentioned there are no other differences between the carrying values and the fair values of any financial assets or liabilities.

In the normal course of business, the Company's assets, liabilities and future 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

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, 2009 the Company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos (MP):

	In '000 of CDN Dollars		In '000 of Mexican Pesos (MP)	
Cash and cash equivalents	$	546	MP	4,749
Other working capital amounts - net	$	(26)	MP	10,725
Long-term Liabilities	$	-	MP	31,356

At July 31, 2009 US dollar amounts were converted at a rate of $1.0775 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP13.1804 to $1 US Dollar. A 10% increase or decrease in the US dollar exchange may increase or decrease earnings from mining operations by approximately $ 1,600. A 10% increase or decrease in the MP exchange rate will decrease or increase earnings from mining operations by approximately $ 940.

Interest Rate Risk

The Company's cash earns interest and its loan payable accrues interest at variable interest rates. While fluctuations in market rates do not have a significant impact on the fair value of the Company's cash flows, such fluctuations could have a moderate impact on the fair value of the loan payable as of July 31, 2009. Future cash flows will be affected by interest rate fluctuations. Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's exposure to interest rate fluctuations is moderate. A 1% increase or decrease in the interest rate will decrease or increase net income by approximately $ $70.

12. Financial Instruments – (cont'd)

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash, the balance of which at July 31, 2009 is $1,018. Cash and cash equivalents of $706 are held, primarily, at a chartered Canadian financial institution, the remainder of $312 is held at a Mexican financial institution. All trade receivables are owing from two customers and are receivable in US dollars

Liquidity Risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company accomplishes this by achieving profitable operations and maintaining sufficient cash reserves. As at July 31, 2009, the Company was holding cash of $1,018. The Company's accounts payable and accrued liabilities and current portion of its loan payable are due in the short term. Long-term obligations include the Company's loan payable, reclamation and closure cost obligations, other long-term liabilities and future income taxes. Prudent management of liquidity risk requires the regular review of existing and future loan covenants to meet expected expenditures and obligations under the Agreement (see Note 1). Though the Company was in default of loan covenants during the year ended July 31, 2009, the Company has made all debt, interest payments and forward contract sales payments due under the Agreement with Investec, as required by the Agreement. Management believes that profits generated from the mine will be sufficient to meet its financial obligations and management believes that the Company will be able to meet all existing loan covenants in the future.

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 are excluded from the definition of derivatives because the obligation may be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of normal sales contracts in accordance with the Company's Revenue Recognition Policy in Note 2. The fair value of the remaining gold sales contracts for the sale of 48,204 ounces to January 31, 2013, as at July 31, 2009 was negative US$11,614 (July 31, 2008 - US$14,893) based on a gold value of US$936 per ounce (July 31, 2008 – US$929).

13. Commitments

a) A term of the Loan financing (note 8) requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2009, which will maintain a balance equal to six months loan principal and interest at all times.. The required funding commitment at July 31, 2009, is approximately US$1,365 in accordance with the Loan repayment schedule. The Company has used all but $49 of this account to fund loan principal payments during the period ended October 31, 2008 and 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 year ended July 31, 2010 is $1,949 (see Note 8) and is in addition to the funding of the DSRA..

b) As at July 31, 2009, the Company has shared lease commitments for office space, of $97, which included minimum lease payments, estimated taxes and excluding operating costs to expiry in February 2010.

c) As at July 31, 2009, the Company has management contracts to officers and directors totaling $300 per year, payable monthly, expiring in January, 2013.

(in thousands of Canadian dollars unless otherwise stated)

13. Commitments – (cont'd)

d) Pursuant to the Acquisition agreement (note 1), the Company has granted Goldcorp Inc. a subordinated 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.

14. Segmented Information

During the year ended July 31, 2009, 100% of the Company's reportable sales were to two third parties. The Company operates in two reportable geographical and three operating segments. Selected financial information by geographical segment is as follows:

	Mexico	**Canada**	**July 31, 2009 Total**
Revenue	$ 24,050	$ -	$ 24,050
Amortization and depletion	2,405	58	2,463
Interest on long term debt	553	-	553
Earnings (loss) for the year	1,787	(876)	911
Mining interest, plant and equipment	41,139	130	41,269
Mineral properties and deferred exploration costs	806	-	806
Segment assets	45,491	765	46,256

	Mexico	Canada	July 31, 2008 Total
Revenue	$ 27,066	$ -	$ 27,066
Amortization and depletion	2,140	45	2,185
Interest on long-term debt	766	-	766
Earnings (loss) for the year	475	(3,042)	(2,567)
Mining interest, plant and equipment	38,134	160	38,294
Mineral properties and deferred exploration costs	806	-	806
Segment assets	45,058	2,203	47,261

Selected financial information by operating segments is as follows:

	Mining Operations	**Exploration & Development**	**Corporate**	**July 31, 2009 Total**
Revenue	$ 24,050	$ -	$ -	$ 24,050
Amortization and depletion	2,405	-	58	2,463
Interest on long term debt	553	-	-	553
Earnings (loss) for the year	1,787	-	(876)	911
Mining interest, plant and equipment	41,139	-	130	41,269
Mineral properties and deferred exploration costs	-	806	-	806
Segment assets	44,685	806	765	46,256

(in thousands of Canadian dollars unless otherwise stated)

14. Segmented Information – (cont'd)

	Mining Operations	Exploration & Development	Corporate	July 31, 2008 Total
Revenue	$ 27,066	$ -	$ -	$ 27,066
Amortization and depletion	2,140	-	45	2,185
Interest on long term debt	766	-	-	766
Earnings (loss) for the year	475	-	(3,042)	(2,567)
Mining interest, plant and equipment	38,134	-	160	38,294
Mineral properties and deferred exploration costs	-	806	-	806
Segment assets	44,252	806	2,203	47,261

During the year ended July 31, 2009, 100% (July 31, 2008 – 100%) of revenue of the Company was earned from two (2008 – two) customers. The balance owing from these customers on July 31, 2009 was $825 (July 31, 2008 - $868).

15. Capital Disclosures

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the consolidated statements of shareholders' equity as capital. The Company manages the 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 new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

16. Income Taxes

Current income tax expense differs from the amount that would result from applying the Canadian statutory income tax rates to the Company's loss before income taxes. This difference is reconciled as follows:

July 31,	**2009**	2008
Loss before income taxes	**$ 2,378**	$ (1,348)
Canadian statutory income tax rate	**29.63%**	32.59%
Income tax recovery at statutory rate	**704**	(439)
Difference from lower statutory tax rates on foreign subsidiaries earnings	**(75)**	(66)
Non-deductible items for tax purposes	**959**	1,892
Taxable permanent differences	**41**	444
Effect of change in statutory rate	**82**	1,011
Non-capital loss carry forwards	**45**	(306)
Change in valuation allowance	**(289)**	(1,317)
Future and current income taxes	**$ 1,467**	$ 1,219

Significant components of the Company's future income tax liability are as follows:

(in thousands of Canadian dollars unless otherwise stated)

16. Income Taxes – (cont'd)

July 31,	2009	2008
Future income tax assets (liabilities)		
Mining interest, plant and equipment	**$ (9,767)**	$ (9,100)
Mineral properties	**1,471**	1,530
Payments to defer	**(15)**	(79)
Insurance	**(30)**	(4)
Supplies	**(39)**	(64)
Provision for reclamation and closure	**467**	466
Expenses reserve	**90**	200
Pension-fund reserve	**11**	2
Profit sharing employees	**696**	598
Share issuance costs	**90**	147
Net capital losses available	**92**	96
Non-capital losses available for future years	**11,028**	1,326
	(5,908)	(4,882)
Valuation allowance	**(2,709)**	(2,792)
	$ (8,617)	$ (7,674)

At July 31, 2009, the Company has tax losses of approximately $3,925 in Canada and $Nil in Mexico available for carry-forward to reduce future years' income taxes, expiring up to 2029 in Canada and 2019 in Mexico. The Company also has capital losses of approximately $737 for carry-forward to reduce future years' taxable capital gains.

In addition, the Company has available mineral resource related expenditure pools totaling approximately $6,700 which may be deducted against future Canadian taxable income on a discretionary basis.

Future income tax benefits which may arise as a result of applying these deductions and benefits and liabilities resulting from temporary differences as outlined above have been recognized in these accounts on the belief that they are more likely than not to be utilized. A valuation allowance has been recorded in cases where the more likely than not criterion has not been met where that the amount will be utilized.

In accordance with Mexican tax law, Bernal is subject to income tax. Income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through an inflationary component

As of January 1, 2008, the Company is no longer subject to an asset tax, which was similar to an alternative minimum tax, under Mexican tax law. The asset tax was calculated by applying 1.25% to the Company's asset position, as defined in the law, and was payable to the extent it exceeds income taxes payable for the same period. In 2008, the Mexican senate approved the Business Flat Tax ("IETU") which replaces the asset tax. It will still be permitted to utilize deferred tax assets for asset tax paid in 2007 and before to offset future income taxes payable in the following 10 years if certain conditions in the tax law are met.

The IETU replaced the Asset Tax in 2008 and functions similar to an alternative minimum corporate income tax, except that any amounts paid are not creditable against future income tax payments. Taxpayers will be subject to the higher of the IETU or the taxpayer's income tax liability computed under the Mexican Income Tax Law. The IETU will apply to individuals and corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5% after 2009. The rates for 2008 and 2009 will be 16.5% and 17%, respectively.

16. Income Taxes – (cont'd)

The IETU will be calculated on a cash-flow basis, whereby the tax base is determined by reducing taxable revenue (i.e., proceeds from the sale of goods, the provision of independent services and the leasing of tangible goods) with certain deductions and credits. Accounts receivable arising from export sales is deemed taxable income if not collected within a period of twelve months.