Starcore International Mines Ltd.
(formerly Starcore International Ventures Ltd.)

Report and Consolidated Financial Statements

July 31, 2008

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. (formerly Starcore International Ventures Ltd.) as at July 31, 2008 and 2007 and the Consolidated Statements of Operations and Other Comprehensive 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Vancouver, Canada
October 20, 2008

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

July 31,		2008		2007
Assets				
Current				
Cash and cash equivalents (notes 4 and 14(a))	$	**2,890**	$	9,072
Amounts receivable (note 5)		**2,664**		1,647
Inventory (note 6)		**1,517**		1,149
Prepaid expenses and advances		**1,090**		1,307
		8,161		13,175
Mining interest, plant and equipment (notes 3 and 7)		**38,294**		36,180
Mineral properties and deferred exploration costs (note 8)		**806**		754
	$	**47,261**	$	50,109
Liabilities				
Current				
Accounts payable and accrued liabilities	$	**4,953**	$	2,786
Current portion of loan payable (note 9)		**2,173**		4,132
		7,126		6,918
Loan payable (notes 3, 9, 13, and 14(a))		**6,304**		8,815
Reclamation and closure cost obligations (note 10)		**1,708**		1,506
Other long-term liabilities (note 11)		**2,190**		1,786
Future income taxes (note 16)		**7,674**		6,796
		25,002		25,821
Shareholders' Equity				
Share capital (notes 3 and 12)		**33,318**		33,266
Contributed surplus (note 12(d))		**3,985**		2,704
Warrants (notes 3, 9 and 12(e))		**6,202**		6,202
Accumulated other comprehensive loss		**(2,750)**		(1,955)
Deficit		**(18,496)**		(15,929)
		22,259		24,288
	$	**47,261**	$	50,109

Commitments (notes 3, 8, 9, 10, 11, 12, and 14)
Segmented information (note 15)
Nature of Operation 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.
(formerly Starcore International Ventures Ltd.)
Consolidated Statements of Operations and Other Comprehensive Loss
(in thousands of Canadian dollars except per share amounts)

For the year ended July 31,		2008		2007
Revenues (note 13)				
Mined ore	$	**16,545**	$	12,457
Purchased concentrate		**10,521**		6,042
		27,066		18,499
Cost of Sales				
Mined Ore (note 12(d))		**11,258**		5,135
Purchased concentrate		**10,240**		5,753
Reclamation and closure (note 10)		**123**		25
Amortization and depletion		**2,140**		1,411
		23,761		12,324
Earnings from mining operations		**3,305**		6,175
Administrative Expenses				
Amortization		**45**		26
Stock-based compensation (note 12(d))		**843**		2,473
Interest on long-term debt (note 9)		**766**		613
Financing fees (note 9)		**-**		1,130
Accretion on long-term debt (note 9)		**157**		78
Professional and consulting fees		**402**		400
Management fees and salary		**622**		296
Office, travel and administration		**875**		964
Shareholder relations		**531**		666
Transfer agent and regulatory fees		**39**		204
		4,280		6,850
Loss before other income expense		**(975)**		(675)
Other income (expense)				
Foreign exchange		**(511)**		(58)
Investment and interest income		**138**		323
Write-off of Mineral property (note 8)		**-**		(239)
Loss before income taxes		**(1,348)**		(649)
Foreign taxes		**(137)**		(32)
Future income tax (note 16)		**(1,082)**		(1,537)
Net loss for the year		**(2,567)**		(2,218)
Other Comprehensive loss:				
Foreign currency translation adjustment		**(795)**		(1,955)
Comprehensive loss for the year	$	**(3,362)**	$	(4,173)
Basic and diluted loss per share	$	**(0.04)**	$	(0.06)
Weighted average number of shares outstanding		**60,687,237**		36,656,516

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

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

For the year ended July 31,	**2008**	2007
Cash provided by (used in)		
Operating activities		
Loss for the year	**$ (2,567)**	$ (2,218)
Items not involving cash		
Amortization and depletion	**2,185**	1,437
Stock-based compensation	**1,281**	2,473
Accretion on long-term debt	**157**	87
Write-off of mineral property	**-**	239
Employee profit sharing (note 11)	**461**	328
Reclamation and closure	**123**	25
Future income tax	**1,082**	1,537
Other	**(2)**	(6)
Change in non-cash working capital items		
Prepaid expenses and advances	**164**	(761)
Amounts receivable	**(1,056)**	(460)
Inventory	**(390)**	(24)
Accounts payable and accrued liabilities	**2,211**	864
Total cash provided by operating activities	**3,649**	3,521
Financing activities		
Issue of share capital	**-**	20,812
Loan payable	**(4,032)**	14,495
Total cash provided by (used in) financing activities	**(4,032)**	35,307
Investing activities		
Business acquisition	**-**	(27,184)
Cash acquired on business acquisition	**-**	56
Mining interest, plant and equipment	**(5,585)**	(2,135)
Mineral properties and deferred exploration costs	**-**	(54)
Total cash (used in) investing activities	**(5,585)**	(29,317)
Effect of foreign currency translation on cash	**(214)**	(1,085)
Net increase (decrease) in cash and cash equivalents	**(6,182)**	8,426
Cash and cash equivalents, beginning of year	**9,072**	629
Cash and cash equivalents, end of year	**$ 2,890**	$ 9,072
Supplementary disclosure of cash flow information		
Cash paid for:		
Interest	**$ 766**	$ -
Income taxes	**$ 22**	$ 32

Non-cash transactions - notes 3, 8, 9 and 12

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

Starcore International Mines Ltd.
(formerly Starcore International Ventures Ltd.)
Consolidated Statement of Shareholders' Equity for the period August 1, 2006 to July 31, 2008
(in thousands of Canadian dollars except per share amounts)

	Shares	Amount	Shares Subscribed Not Issued	Contributed Surplus	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total
Balance August 1, 2006	12,717,999	$ 14,960	$ 6,892	$ 465	$ -	$ -	$ (13,711)	$ 8,606
Issued for cash pursuant to:								
Private placement at $0.50	37,400,000	14,226	(6,892)	-	4,474	-	-	11,808
Private placement at $0.56	1,785,714	763	-	-	237	-	-	1,000
Exercise of warrants at $0.60	2,145,332	1,287	-	-	-	-	-	1,287
Exercise of options at $0.40	925,000	577	-	(207)	-	-	-	370
Exercise of options at $0.68	50,000	61	-	(27)	-	-	-	34
Exercise of warrants at $0.80	390,000	405	-	-	(93)	-	-	312
Agents' commissions, fees and legal fees	447,144	(1,378)	-	-	476	-	-	(902)
Issued for acquisition of Bernal at $0.50	4,729,600	2,365	-	-	-	-	-	2,365
Stock based compensation	-	-	-	2,473	-	-	-	2,473
Fair value of warrants issued pursuant to loan payable	-	-	-	-	1,108	-	-	1,108
Foreign currency translation	-	-	-	-	-	(1,955)	-	(1,955)
Net loss for the year	-	-	-	-	-	-	(2,218)	(2,218)
Balance July 31, 2007	60,590,789	33,266	-	2,704	6,202	(1,955)	(15,929)	24,288
Issued pursuant to Cerro de Dolores Property Option Agreement	100,000	52	-	-	-	-	-	52
Stock-based compensation	-	-	-	1,281	-	-	-	1,281
Foreign currency translation and change in value of available-for-sale securities	-	-	-	-	-	(795)	-	(795)
Net loss for the year	-	-	-	-	-	-	(2,567)	(2,567)
Balance July 31, 2008	**60,690,789**	**$ 33,318**	**$ -**	**$ 3,985**	**$ 6,202**	**$ (2,750)**	**$ (18,496)**	**$ 22,259**

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

1. Nature of Operations and Going Concern

Starcore International Mines Ltd. (formerly Starcore International Ventures Ltd.) (the "Company" or "Starcore") changed its name to Starcore International Mines Ltd. on February 1, 2008.

Starcore is engaged in exploring, extracting and processing gold and silver through the February 1, 2007 acquisition of 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") (*see Note 3*). The Company became a gold and silver producer as a result of the acquisition and has graduated to the TSX Exchange as a public reporting issuer. 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 first generated in 2007 at its San Martin Mine. During the year ended July 31, 2008, the cash used in repaying the loan payable and in investing activities exceeded the cash flow generated from operations by $6,182 bringing the Company's cash balance down to $2,890 and working capital to $1,035. 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.

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. Effective August 1, 2006 the Company adopted the provisions of *Canadian Institute of Chartered Accountants* ("*CICA") Handbook Section 1530 comprehensive income, Section 3831 inon-monetary transactions, Section 3855 financial instruments –recognition and measurement, and Section 3865 hedges.*

The financial statements have in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

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

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 are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize deferred income tax assets;
- 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;
- Whether investments are impaired; and
- The amount of stock option 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 subsidiaries, Starcore Mexicana, S.A. de C.V., a Mexican Company ("Mexicana"), Servicios Administrativos Mineros, S.A. de C.V., a Mexican Company, and Bernal, a Mexican Company. All significant inter-company transactions and balances have been eliminated.

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

For purposes of reporting cash flows, 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.

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

Inventories

Work-in-process inventories and finished goods 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 its 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 income and 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 period.

For integrated foreign operations, such as Mexicana, monetary assets and liabilities are translated at year end exchange rates and other assets and liabilities are translated at historical rates. Revenues, expenses and cash flows are translated at average exchange rates. Gains and losses on translation of monetary assets and monetary liabilities are charged to operations.

The accounts of self-sustaining operations, such as Bernal, are translated at year end exchange rates, and revenues and expenses are translated at average exchange rates. Differences arising from these foreign currency translations are recorded in Accumulated other comprehensive loss until they are realized by a reduction in the investment.

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 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.

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.

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

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

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.

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 appropriate. 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.

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

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

Reclamation and closure cost obligations – (cont'd)

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.

Basic and diluted 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 loss per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period and that the convertible notes had been converted on the date of issue. However, shares issuable on exercise of stock options and warrants totalling 45,108,679 (2007 – 48,888,519) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

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.

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

Comparative Figures

Certain comparative figures have been reclassified to conform to current presentation.

Financial Instruments

Effective August 1, 2006, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments.

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

This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect

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.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash and cash equivalents have been classified as held-for-trading.
- Accounts receivable have been classified as loans and receivables.
- Marketable securities are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive loss. At the time securities are sold or otherwise disposed of, gains or losses are included in net loss.
- Accounts payable and accrued liabilities have been classified as other financial liabilities.

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

Financial Instruments – (cont'd)

- Loans payable are classified as held-to-maturity and are measured at amortized costs. 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.

b) Hedging (*CICA Handbook Section 3865*)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

c) 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. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. 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 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 Released Canadian Accounting Standards

There are three new CICA accounting standards that have been issued but not yet adopted by the Company. These three standards will become effective for the Company on August 1, 2008. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

a) The CICA has issued new accounting standards Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which replace Section 3861 "Financial Instruments–Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the existing presentation requirements. These new standards are effective for the Company for periods beginning on or after October 1, 2007.

b) Effective August 1, 2008, the Company will adopt 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.

c) Effective August 1, 2008, the Company will adopt 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.

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

Recently Released Canadian Accounting Standards – (cont'd)

d) 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.

3. Acquisition of Bernal

On February 1, 2007, pursuant to a Share Purchase Agreement dated September 25, 2006, the Company completed the Acquisition of Bernal, the owner and operator of the San Martin Mine in Queretaro, Mexico, from Luismin. 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.

In order to finance the Acquisition, the Company issued 37,400,000 units at a price of $0.50 per unit for gross proceeds of $18,700 (the "Offering"), and arranged a US$13 million ($13,867) bank financing (the "Loan") which matures on January 31, 2013 and bears interest at LIBOR plus 3%.

Each Offering unit consists of one common share and one-half of one warrant which is exercisable into one additional common share for three years at an exercise price of $0.80 per share. The shares and warrants were issued concurrently with the closing of the Acquisition and the entire proceeds of the offering were allocated to the common shares, determined to be the fair value. Pursuant to the Offering, the Company incurred cash commissions of $833 and issued 447,144 common shares at a fair value of $523 (based on the trading value of the Company's stock at the date earned), which are included net against Share Capital. The Company also granted 879,840 agents warrants entitling the holder to acquire one share at $0.80 for one year with the same early expiry provisions as the warrants issued in the Offering. These warrants were determined to have a fair value of $476 using the Black-Scholes fair value pricing model and the non-cash amounts are included in the financial statements as Warrants and a charge to share issue costs in Shareholders' equity.

In connection with the Loan, 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). The exercise price of the detachable warrants was calculated at a 140% and 160% premium, respectively, to the 40 day weighted average value of the Company's trading share price at the Loan agreement date. The exercise of the warrants in whole or in part will result in a pro-rata drawdown of the amount of debt outstanding based on the US dollar conversion rate up to the full amount of the US $13 million ($13,867) loan balance. Once the loan is completely drawn down by conversion of the warrants, any remaining unexercised warrants (i.e. on balances of the loan principle which were previously paid down by the Company in cash) are exercisable at the Canadian dollar conversion rate.

3. Acquisition of Bernal – (cont'd)

On February 1, 2007, the Company acquired all of the issued and outstanding shares of Bernal. The acquisition represents a business combination (acquisition of a self sustaining mining operation) and has been accounted for using the purchase method of accounting. Under this method, the residual of the fair value of the consideration paid less the fair value of the net assets acquired on February 1, 2007 is allocated to mining interest, as follows:

Assets		
Cash and equivalents	$	56
Amounts receivable		1,300
Inventory		1,234
Prepaid expenses and advances		576
Mining interest, plant and equipment		32,895
Total assets		**36,061**
Less: Liabilities – Accounts payable and accrued liabilities		2,057
- Future Income Taxes		4,095
- Other long-term liabilities		1,624
- Reclamation and closure cost obligations		1,623
Total liabilities		**9,399**
Net assets		**26,662**
Consideration:		
Cash		28,248
Shares		2,365
Acquisition costs		543
Total consideration		**31,156**
Net difference		4,494
Future income tax effect		1,748
Additional allocation to mining interest, plant and equipment	**$**	**6,242**

The balance of consideration in excess of net assets for book purposes has been allocated to Mining interest, plant and equipment on the basis that the future value of the mine's proven and probable reserves as well as Value Beyond Proven and Probable reserves ("VBPP") exceeds the unallocated purchase consideration. VBPP includes a portion of resources expected to be converted to reserves. These costs are depleted over an expected mine life in accordance with the Company's amortization policy.

Pursuant to the Acquisition agreement, Luismin operated the mine on behalf of the Company until January 31, 2008. Also, 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.

4. Cash and Cash Equivalents

Cash equivalents include Guaranteed Investment Certificates and/or Government of Canada Treasury bills with a market value of $1,034 (July 31, 2007 - $3,067) earning interest income at approximately 3% - 4.5% per annum. 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.

5. Amounts Receivable

July 31,		2008		2007
Value added tax and Goods and Services Tax	**$**	**1,796**	$	830
Customers		**868**		695
Other		**-**		122
	$	**2,664**	$	1,647

6. Inventory

July 31,		2008		2007
Dore	**$**	**641**	$	267
Work-in-process		**160**		160
Supplies		**716**		722
	$	**1,517**	$	1,149

7. Mineral Interest, Plant and Equipment

				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**

				July 31, 2007		
		Cost		Accumulated amortization and depletion		Net book value
Mining interest	$	30,256	$	1,003	$	29,253
Plant and equipment		7,148		358		6,790
Corporate office equipment and leaseholds		193		56		137
	$	**37,597**	**$**	**1,417**	**$**	**36,180**

8. Mineral Properties and Deferred Exploration Costs

a) 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 post consolidation common shares and incur US $1.4 million in exploration expenditures on the property over a six year period as follows:

- 100,000 common shares upon TSX Venture Exchange (the "Exchange") acceptance of the Agreement on June 23, 2004 (issued at $0.50 per share);
- an additional 50,000 common shares (issued at $0.50 per share) and US $300 in exploration expenditures on or before June 23, 2005 (incurred);
- an additional 100,000 common shares on or before June 23, 2008 (issued);
- an additional US $300 in exploration expenditures on or before June 23, 2008;
- an additional US $300 in exploration expenditures on or before June 23, 2009; and
- an additional US$500 in exploration expenditures on or before June 23, 2010

Upon issuing the shares and completing the expenditures set out above, the Company will have earned a 51% interest in the Cerro de Dolores property. The Company can earn an additional 29% interest in the property by placing the property into commercial production. If the Company earns its initial 51% interest but does not place the property into commercial production, Goldcorp/Wheaton will have the option to re-acquire an 11% interest in the property from the Company for a cash purchase price of US $300 or 11/80 of the exploration expenditures incurred by the Company.

In November 2004, the Company acquired, through staking, 2,344 additional hectares of exploration ground contiguous to its 697 hectare Cerro de Dolores property in the Guerro/Puebla States in Mexico, extending north-easterly from the boundary of the existing land position and covers the known extension (about 15 km) of the structural corridor hosting silver-lead-zinc mineralization in the target area. The zones have not been subjected to modern exploration techniques and represent targets for resource expansion for the Company.

During the year ended July 31, 2008, the Company issued 100,000 common shares valued at the fair market value on date issue of $0.52 per share to Goldcorp pursuant to the terms of the Agreement.

At July 31, 2008, 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 year ended July 31, 2008 and $35 were incurred during the year ended July 31, 2007.

b) Black Silver, Arizona

In January, 2005, as amended January 10, 2006, the Company entered into an option agreement to acquire a 100% interest in the Black Silver Property located in southern Arizona. During the year ended July 31, 2007, the Company decided to abandon this option and recognized a loss of $239 on the write-off of the mineral property and related deferred exploration costs.

9. Loan Payable

Pursuant to the Acquisition of Bernal, the Company arranged a US$13 million bank Loan with Investec Bank (U.K.) Limited ("Investec") which is repayable quarterly and matures on January 31, 2013. The Loan bears interest at LIBOR plus 3%, subject to an increase to LIBOR plus 4% upon an event of default, and is secured by all of the assets of Bernal, all of the shares of Bernal and Mexicana, and by a guarantee from the Company. At July 31, 2008, the effective interest rate to the Company was 5.8% (2007 – 5.4%) based upon a three month LIBOR set at July 31, 2008 at 2.8% (2007 – 2.4%) for the next three month period ended October 31, 2008. The Company has the right to repay the Loan at any time without penalty. The Loan consists of two Tranches as follows:

a) Tranche A for US$8million is repayable as to interest each three to six months 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 Cdn$0.76 (or US$0.643) per share until January 31, 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 Cdn $0.76 per warrant exercised. During the year ended July 31, 2008, the Company has made principle payments on the Tranche A Loan totaling US$4.03 million (2007 – $nil).

b) Tranche B for US$5million is repayable as to interest each three to six months 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 Cdn$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 Cdn $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, 2008, 61,770 (2007 – 75,185) ounces remained under forward sales contracts.

The Loan is classified as a liability, 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 Loan, US$13,000 or Cdn$15,301 less portion of the loan classified as a liability, US$12,059 or Cdn$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 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, 2008 was $157 (2007 - $78). In addition, the Company incurred direct cash transaction costs of the Loan financing of $1,130, which were charged to the consolidated statements of operations and comprehensive loss during the year ended July 31, 2007.

July 31,	**2008**	2007
Balance, beginning of the year	**$ 12,947**	$ -
Tranche A Loan (payment)	**(4,032)**	8,534
Tranche B Loan	**-**	5,333
	8,915	13,867
Less: Discount	**-**	(1,108)
Add: Discount accretion	**157**	78
Foreign exchange fluctuation	**(595)**	110
	$ 8,477	$ 12,947

9. Loan Payable – (cont'd)

A summary of the Loans is as follows:

July 31,	2008	2007
Tranche A Loan	**$ 4,072**	$ 8,534
Tranche B Loan	**5,129**	5,333
	9,201	13,867
Less: Discount	**724**	920
	8,477	12,947
Less: Current portion	**2,173**	4,132
Long-term portion	**$ 6,304**	$ 8,815

Principal due for the fiscal year ended:	
July 31, 2009	**2,334**
2010	**2,000**
2011	**1,266**
2012	**2,132**
2013	**1,469**
	$ 9,201

10. 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 $1,708 reflecting undiscounted payments assumed at the end of the mine life of $30,878 Mexican pesos ("MP") or $3,156 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 $2,050. 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,	2008	2007
Balance, beginning of year	**$ 1,506**	$ -
Balance February 1, 2007 on acquisition of Bernal	**-**	1,470
Accretion expense	**123**	23
Foreign exchange fluctuation	**133**	-
Revisions in assumptions, estimates and liabilities incurred	**(54)**	13
	$ 1,708	$ 1,506

11. Other Long – Term Liabilities

Under Mexican tax laws, the Company 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 earns taxable income.

12. Share Capital

a) Authorized

Unlimited common shares with no par value

b) Shares issued

During the year ended July 31, 2008

(i) The Company issued 100,000 common shares at $0.52 per share pursuant to the Cerro de Dolores property option agreement.

During the year ended July 31, 2007:

(i) In order to finance the Acquisition of Bernal, the Company issued 37,400,000 units at a price of $0.50 per unit for gross proceeds of $18,700 (the "Offering"). Each unit consists of one common share and one-half of one warrant. Each full warrant is exercisable into one additional common share until August, 2009 as to 7,613,400 warrants and January, 2010 as to 11,086,600 warrants, at an exercise price of $0.80 per share. The warrants include an early expiry feature which may be triggered should the common shares close above $2.50 over a minimum period of forty-five calendar days.

(ii) Pursuant to the Offering, the Company incurred cash commissions of $833, issued 447,144 common shares and granted 879,840 agents warrants entitling the holder to acquire one share at $0.80 until February, 2008, with the same early expiry provisions as the warrants issued in the Offering.

(iii) Pursuant to the Acquisition the Company also issued 4,729,600 common shares to Luismin at a fair value of $2,365 based on the market value of the Company's stock at the date of the Acquisition agreement.

(iv) The Company issued 1,785,714 units at a price of $0.56 per unit, for proceeds of $1,000. Each unit is comprised of one common share and one-half of one non-transferable share purchase warrant. Each warrant is exercisable into one additional common share until February, 2010, at a price of $0.80. The warrants include an early expiry feature, which the Company may trigger should the common shares close above $2.50 over a minimum period of forty-five calendar days. The Company paid cash commission of $60 pursuant to the private placement.

(v) The Company issued 975,000 shares at $0.40 to $0.68 for proceeds of $404 pursuant to the exercise of share purchase options, and 2,535,332 shares at $0.60 to $0.80 for proceeds of $1,599 pursuant to the exercise of warrants.

12. Share Capital - (cont'd)

c) Options Outstanding

A summary of the Company's outstanding stock options as of July 31, 2008 and 2007 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price
Outstanding at July 31, 2006	2,294,000	$0.42
Option exercised	(975,000)	$0.41
Options granted	8,605,822	$0.95
Options cancelled/expired	(355,000)	$0.48
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**
Exercisable at July 31, 2008	**6,394,822**	**$0.82**

At July 31, 2008, there were 7,869,822 stock options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Number of Shares	Number exercisable	Exercise Price	Weighted Average Remaining Life	Expiry Date
500,000	500,000	$0.40	1.65 years	March 23, 2010
424,000	424,000	$0.40	2.49 years	January 26, 2011
40,000	40,000	$0.40	2.59 years	March 2, 2011
525,822	525,822	$0.60	3.39 years	December 20, 2011
3,205,000	3,205,000	$1.06	3.48 years	January 22, 2012
50,000	33,333	$1.06	3.51 years	February 2, 2012
1,875,000	1,250,000	$0.78	3.95 years	July 9, 2012
1,250,000	416,667	$0.78	4.24 years	October 23, 2012
7,869,822	**6,394,822**		**3.26 years**	

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.

12. Share Capital - (cont'd)

d) <u>Stock Based Compensation – (cont'd)</u>

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,	
	2008	2007
Number of options granted	**1,250,000**	8,605,822
Fair value	**$576**	$5,209
Dividend Rate	**$0**	$0
Risk free interest rate	**4.28%**	4.19%
Expected life	**5 years**	5 years
Expected annual volatility	**82%**	82%
Average strike price	**$0.95**	$0.95
Weighted average fair value per option	**$0.46**	$0.61

Stock-based compensation during the year ended July 31, 2008 was $1,281 (2007 - $2,473), which has been recorded in the statement of operations and credited to contributed surplus. Of this amount, $438 has been recorded as a charge to Cost of Sales – Mined ore and $843 was charged to Administrative Expenses – Stock-based compensation.

e) <u>Warrants Outstanding</u>

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, 2013.

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 $4,713 or $0.25 per whole warrant. Warrants issued with the $1,000 private placement have been assigned a value of $252 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.

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.

12. Share Capital – (cont'd)

e) Warrants Outstanding

A summary of the Company's outstanding share purchase warrants at July 31, 2008 and 2007 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average Exercise price
Outstanding and exercisable at July 31, 2006	2,897,332	$ 0.60
Warrants expired	(752,000)	$ 0.60
Warrants cancelled/exercised	(2,535,332)	$ 0.63
Warrants issued	39,708,697	$ 0.80
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, 2008	**37,238,857**	**$ 0.80**

13. 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. 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 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 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, 2008 the company had the following financial assets and liabilities denominated in US dollars and denominated in Mexican Pesos:

	In '000 of CDN Dollars	**In '000 of Mexican Pesos (MP)**
Cash and equivalents	$ 1,739	MP 17,559
Other working capital amounts - net	$ 38	MP (2,469)
Long-term Liabilities	$ -	MP 98,492

At July 31, 2008 US dollar amounts were converted at a rate of $1.0257 Canadian dollars to 1 US dollar and Mexican Pesos were converted at a rate of MP10.0362 to 1 US Dollar.

13. Financial Instruments – (cont'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 are excluded from the definition of derivatives because the obligation will 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 (see note 1 – Nature of Operations and Going Concern). The fair value of the remaining gold sales contracts for the sale of 61,770 ounces to January 31, 2013, as at July 31, 2008 was negative US$14,893 (2007 - US$1,852) based on a gold value of US$929 per ounce (2007 – US$667).

14. Commitments

a) A term of the Loan financing (note 10) requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2008, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at July 31, 2008, is approximately US$1,100 in accordance with the Loan repayment schedule. The Company has agreed with the lender to maintain a balance of US$500. The principal due over the next year ended July 31, 2008 of $2,173 is shown as a current liability on the Company's balance sheet and is in addition to the funding of the DSRA.

b) As at July 31, 2008, the Company has shared lease commitments for office space, of $25, which included minimum lease payments, estimated taxes and excluding operating costs to expiry in February 2010.

c) As at July 31, 2008, the Company has management contracts to officers and directors totaling $300 per year, payable monthly, expiring in January, 2013.

15. Segmented Information

During the year ended July 31, 2008, 100% of the Company's reportable sales were to two third parties. The Company operates in two reportable geographical (2007 – three) and three operating segments (2007 – three). Selected financial information by geographical segment is as follows:

	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

15. Segmented Information – (cont'd)

	Mexico	United States	Canada	July 31, 2007 Total
Revenue	$ 18,499	$ -	$ -	$ 18,499
Amortization and depletion	1,411	-	26	1,437
Interest on long-term debt	613	-	-	613
Earnings (loss) for the year	2,389	(239)	(4,368)	(2,218)
Mining interest, plant and equipment	36,043	-	137	36,180
Mineral properties and deferred exploration costs	754	-	-	754
Segment assets	46,085	-	4,024	50,109

Selected financial information by operating segments is as follows:

	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

	Mining Operations	**Exploration & Development**	**Corporate**	**July 31, 2007 Total**
Revenue	$ 18,499	$ -	$ -	$ 18,499
Amortization and depletion	1,411	-	26	1,437
Interest on long term debt	613	-	-	613
Earnings (loss) for the year	2,389	(239)	(4,368)	(2,218)
Mining interest, plant and equipment	36,043	-	137	36,180
Mineral properties and deferred exploration costs	-	754	-	754
Segment assets	45,331	754	4,024	50,109

During the year ended July 31, 2008, 100% (2007 – 100%) of revenue of the Company was earned from two customers. The balance owing from these customers on July 31, 2008 was $868 (2007 - $695)

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,		2008		2007
Loss before income taxes	$	**(1,348)**	$	**(649)**
Canadian statutory income tax rate		**32.59%**		**34.10%**
Income tax recovery at statutory rate		**(439)**		**(220)**
Difference from lower statutory tax rates on foreign subsidiaries earnings		**(66)**		**(257)**
Non-deductible items for tax purposes		**1,892**		**843**
Taxable permanent differences		**444**		**-**
Effect of change in statutory rate		**1,011**		**-**
Non-capital loss carry forwards		**(306)**		**(426)**
Change in valuation allowance		**(1,317)**		**1,565**
Future and current income taxes	$	**1,219**	$	**1,569**

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

July 31,		2008		2007
Future income tax assets (liabilities)				
Mining interest, plant and equipment	$	**(9,100)**	$	(7,313)
Mineral properties		**1,530**		2,024
Payments to defer		**(79)**		-
Insurance		**(4)**		-
Supplies		**(64)**		(88)
Provision for reclamation and closure		**466**		421
Expenses reserve		**200**		69
Pension-fund reserve		**2**		11
Profit sharing employees		**598**		500
Share issuance costs		**147**		396
Net capital losses available		**96**		126
Non-capital losses available for future periods		**1,326**		1,818
		(4,882)		(2,036)
Valuation allowance		**(2,792)**		(4,760)
	$	**(7,674)**	$	(6,796)

At July 31, 2008, the Company has tax losses of approximately $3,900 in Canada and $1,040 in Mexico available for carry-forward to reduce future years' income taxes, expiring up to 2028 and 2012, respectively. 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

16. Income Taxes – (cont'd)

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 there is substantial doubt 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. On December 1, 2004 certain amendments to the Mexican tax laws were enacted and were effective in 2005. The most significant amendments were as follows: (a) the income tax rate was reduced to 29% in 2006 and further reduced to 28% in 2007 and thereafter; (b) for income tax purposes, cost of sales is deducted instead of inventory purchases and related conversion costs; (c) taxpayers had the ability to elect, in 2005, to ratably increase taxable income over a period from 4 to 12 years by the tax basis of inventories as of December 31, 2004 determined in conformity with the respective tax rules; (d) bank liabilities and liabilities with foreign entities are included to determine the tax on the taxable asset base.

The Bernal's management elected to amortize the tax inventory of US$ 493 at December 31, 2004 into taxable income over a seven year period beginning in 2005, based on inventory turnover. Accordingly, the initial effect of the new regulation of no longer deducting inventory purchases is deferred.

The Company was also subject to an asset tax, which is similar to an alternative minimum tax, under Mexican tax law. The asset tax is calculated by applying 1.25% to the Company's asset position, as defined in the law, and is payable to the extent it exceeds income taxes payable for the same period. In October 2007, the Business Flat Tax ("IETU") was published which will replace the asset tax. It will still be permitted to utilize deferred tax assets for asset tax paid in 2008 to offset future income taxes payable in the following 10 years if certain conditions in the tax law are met.

On September 14, 2007, the Mexican Senate approved the 2008 Fiscal Reform Bill, which was approved on October 1, 2007. The most notable change in the Fiscal Reform relates to the introduction of a flat tax in Mexico.

The IETU will replace the existing Asset Tax and will function 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.

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.