Starcore International Mines Ltd.

Consolidated Financial Statements

July 31, 2011

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Independent Auditor's Report

To the Shareholders of Starcore International Mines Ltd.

We have audited the accompanying consolidated financial statements of Starcore International Mines Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as at July 31, 2011 and the consolidated statements of operations and other comprehensive loss, cash flows, and shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Starcore International Mines Ltd. and its' subsidiaries as at July 31, 2011 and the results of its operations and cash flows for each the year then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the consolidated balance sheet and statement of operations and other comprehensive loss which indicates that the Company incurred a net loss of $4,023,000 for the year ended July 31, 2011, and has an accumulated deficit of $32,744,000 at July 31, 2011. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matters

The consolidated balance sheet as at July 31, 2010 and the consolidated statement of operations and other comprehensive loss, cash flows, and shareholders' equity for the year then ended were audited by another auditor who issued an unmodified opinion on October 29, 2010.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, Canada
October 24, 2011

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

July 31,	2011	2010
Assets		
Current		
Cash	$ 712	$ 824
Short-term investments (note 3)	1,250	761
Amounts receivable (note 4)	1,779	1,150
Inventory (note 5)	2,199	1,065
Prepaid expenses and advances	1,593	832
	7,533	4,632
Mining interest, plant and equipment (note 6)	39,104	40,538
	$ 46,637	$ 45,170
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 6,372	$ 3,300
Note payable (note 7)	100	-
Current portion of loan payable (note 8)	3,111	4,526
Current portion of forward contract obligations (note 13)	11,137	6,228
	20,720	14,054
Loan payable (note 8)	-	-
Forward contract obligations (note 13)	7,242	10,104
Reclamation and closure cost obligations (note 9)	1,473	1,275
Other long-term liabilities (note 10)	2,632	2,633
Future income taxes (note 16)	2,456	3,230
	34,523	31,296
Shareholders' Equity		
Share capital (note 11)	36,750	34,909
Contributed surplus	9,941	9,068
Warrants (notes 8 and 11)	1,407	1,588
Accumulated other comprehensive loss	(3,240)	(2,970)
Deficit	(32,744)	(28,721)
	12,114	13,874
	$ 46,637	$ 45,170

Nature of Operations and Going Concern (note 1)
Commitments (note 13)
Subsequent Events (note 17)

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.
Interim Consolidated Statements of Operations and Other Comprehensive Loss
(in thousands of Canadian dollars except per share amounts)

For the years ended July 31,		**2011**		2010
Revenues				
Mined ore	**$**	**29,413**	$	22,046
Purchased concentrate		**10,052**		1,155
		39,465		23,201
Cost of Sales				
Mined ore		**13,415**		10,728
Purchased concentrate		**9,752**		1,054
Reclamation and closure (note 9)		**153**		(134)
Amortization and depletion		**2,344**		2,117
		(25,664)		(13,765)
Earnings from mining operations		**13,801**		9,436
Administrative Expenses				
Amortization		**35**		47
Stock-based compensation (note 11)		**156**		379
Interest on long-term debt (note 8)		**189**		282
Accretion on long-term debt (note 8)		**90**		148
Financing fees		**50**		52
Professional and consulting fees		**432**		309
Management fees and salaries		**421**		436
Office, travel and administration		**574**		870
Shareholder relations		**234**		240
Transfer agent and regulatory fees		**52**		35
		(2,233)		(2,798)
Income before other items and income taxes		**11,568**		6,638
Other items				
Foreign exchange loss		**(210)**		(43)
Investment and interest income		**-**		4
Impairment (note 7)		**(300)**		-
Write-down of equipment		**(179)**		-
Write-down of mineral property		**-**		(806)
Net realized and unrealized loss on forward contracts (note 13)		**(12,541)**		(9,873)
Loss before income taxes		**(1,662)**		(4,080)
Current taxes expense		**(3,049)**		(1,662)
Future income tax recovery		**688**		2,014
Net loss for the year		**(4,023)**		(3,728)
Other Comprehensive loss				
Foreign currency translation adjustment		**(270)**		(782)
Comprehensive loss for the year	**$**	**(4,293)**	$	(4,510)
Basic and diluted loss per share	**$**	**(0.05)**	$	(0.05)
Basic and diluted weighted average number of shares outstanding		**88,016,033**		74,485,310

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

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

For the year ended July 31,	2011	2010
Cash provided by		
Operating activities		
Net loss for the year	**$ (4,023)**	$ (3,728)
Items not involving cash		
Amortization and depletion	**2,379**	2,164
Stock-based compensation (note 11)	**235**	457
Accretion on long-term debt	**90**	148
Employee profit sharing provision (note 10)	**194**	191
Reclamation and closure cost accretion (note 9)	**153**	(134)
Impairment (note 7)	**300**	-
Write-down of equipment	**179**	-
Write-down of mineral property	**-**	806
Net unrealized loss on forward contracts (note 13)	**3,357**	4,491
Future income tax recovery	**(688)**	(2,014)
Other	**-**	(2)
Change in non-cash working capital items		
Prepaid expenses and advances	**(859)**	(366)
Short-term investments	**(489)**	(716)
Amounts receivable	**(745)**	624
Inventory	**(1,267)**	(132)
Accounts payable and accrued liabilities	**3,309**	1,751
Total cash provided by operating activities	**2,125**	3,540
Financing activities		
Share issuances	**2,543**	2,200
Share issue costs	**(148)**	(129)
Repayment of loan payable	**(1,237)**	(2,045)
Total cash provided by (used in) financing activities	**1,158**	26
Investing activities		
Investment in subsidiary (note 7)	**(200)**	-
Mining interest, plant and equipment net of disposals	**(4,026)**	(3,380)
Total cash used in investing activities	**(4,226)**	(3,380)
Effect of foreign currency translation on cash	**831**	(380)
Net decrease in cash	**(112)**	(194)
Cash, beginning of year	**824**	1,018
Cash, end of year	**$ 712**	$ 824

Supplementary disclosure of cash flow information		
Cash paid for:		
Interest	**$ 189**	$ 282
Income taxes	**$ 3,031**	$ 1,662

Non-cash transactions - note 11

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

Starcore International Mines Ltd.
Interim Consolidated Statement of Shareholders' Equity for the years ended July 31, 2011 and 2010
(in thousands of Canadian dollars, except for number of shares)

		Shares	Amount	Contributed Surplus	Warrants	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, August 1, 2009		60,690,789	$ 33,318	$ 6,660	$ 3,359	$ (2,188)	$ (24,993)	$ 16,156
Issued for cash pursuant to:								
Private placement	- at $0.10	22,000,000	1,816	-	384	-	-	2,200
Agents' and legal fees		-	(106)	-	(23)	-	-	(129)
Fair value of agents' warrants		-	(119)	-	119	-	-	-
Stock-based compensation		-	-	457	-	-	-	457
Expiry of warrants		-	-	2,251	(2,251)	-	-	-
Future income tax recovery on expiry of warrants		-	-	(300)	-	-	-	(300)
Foreign currency translation		-	-	-	-	(782)	-	(782)
Net loss for the year		-	-	-	-	-	(3,728)	(3,728)
Balance, July 31, 2010		82,690,789	34,909	9,068	1,588	(2,970)	(28,721)	13,874
Issued for cash pursuant to:								
Private placement	- at $0.11	10,170,905	883	-	236	-	-	1,119
Private placement	- at $0.11	12,947,276	1,209	-	215	-	-	1,424
Agents' fees		-	(120)	-	(28)	-	-	(148)
Fair value of agents' warrants		-	(76)	-	76	-	-	-
Stock-based compensation		-	-	235	-	-	-	235
Expiry of warrants		-	-	735	(735)	-	-	-
Future income tax recovery on expiry of warrants		-	-	(97)	-	-	-	(97)
Extension of expiry date of warrants		-	(55)	-	55	-	-	-
Foreign currency translation		-	-	-	-	(270)	-	(270)
Net loss for the year		-	-	-	-	-	(4,023)	(4,023)
Balance, July 31, 2011		105,808,970	$ 36,750	$ 9,941	$ 1,407	$ (3,240)	$ (32,744)	$ 12,114

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 Toronto Stock Exchange ("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 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, 2011, the cash used in repaying the loan payable and in investing activities exceeded cash flow generated from operations and share issuances by $112 bringing the Company's cash balance to $712 with a working capital deficiency of $13,187. While these financial statements have been prepared in accordance with the Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions; there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement (the "Agreement") with Investec Bank (U.K.) Limited ("Investec") (Note 8), as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2011 and 2010, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below 110%. In accordance with reporting requirements, the Company notified Investec and has taken steps to rectify the default. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve their concerns. Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59. This reclassification does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

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. During the year ended July 31, 2011, the Company completed a private placement for proceeds of $2,542 (see note 11).

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

Use of Estimates

A precise determination of many assets and liabilities is dependent upon future events; as a result, 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 including: mining interest and plant and equipment are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize or record future income tax assets and liabilities;
- The useful lives of long-lived assets and the measurement of amortization;
- The fair value of reclamation and closure cost obligations;
- The likelihood of loss contingencies occurring and the amount of any potential loss; and
- The value 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 subsidiaries, Starcore Mexicana, S.A. de C.V. (Mexico), SAM Servicios Administrativos Mineros, S.A. de C.V. (Mexico), Compañia Minera Peña de Bernal, S.A. de C.V. (Mexico) and 1794598 Ontario Inc.. 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 and risk passes. The sales price is determined on the delivery date based on either the terms of 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 three 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, where the US dollar is regarded as an entity's functional currency, 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 US dollar 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 of the asset and the 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.

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

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

	July 31, 2011	July 31, 2010
Numerator		
Net loss for the year	$ **(4,065)**	$ **(3,728)**
Denominator		
Weighted average shares outstanding - basic	**88,016,033**	**74,485,310**
Effect of dilutive securities – warrants and options	**-**	**-**
Denominator for diluted EPS	**88,016,033**	**74,485,310**

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 years ended July 31, 2011 and 2010, shares issuable on exercise of vested stock options and warrants totalling 41,397,661 were not included in the computation of diluted loss per share because the impact would be anti-dilutive.

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 substantively enacted 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

Recognition and Measurement

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 earnings 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 and short-term investments 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 other financial liabilities. Deferred financing costs relating to the issuance detachable warrants with loans are presented as a discount to the loan value and amortized over the term of the Loan using the effective yield method.

- Forward contract obligations are classified as held for trading.

The Company's financial instruments are recorded at cost or amortized cost with the exception of the Company's cash and short term investments which are measured at fair value. The Company has chosen to recognize all transaction costs in operations on all financial liabilities.

Comprehensive Income

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 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 other 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.

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

Recently Released Canadian Accounting Standards

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. The Company has early adopted these new sections as of August 1, 2010 and there was no material impact on the Company's financial condition or operating results.

Future Accounting Pronouncements

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 generally accepted accounting principles with 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 generally accepted accounting principles. The effective date for the Company is for interim and annual financial statements relating to fiscal years beginning on or after August 1, 2012. This transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended July 31, 2011. The Company does not expect any significant adjustment to the financial statements as a result of the impact of the convergence of Canadian GAAP and IFRS.

3. Short-term Investments

Short-term investments include Guaranteed Investment Certificates with a market value of $1,250 (July 31, 2010 - $761) earning interest income at prime minus 1.80% per annum and maturing on April 5, 2012.

4. Amounts Receivable

	July 31, 2011	July 31, 2010
Value added tax and Goods and Services Tax	**$ 1,590**	$ 876
Customers	**172**	200
Other	**17**	74
	$ 1,779	$ 1,150

5. Inventory

		July 31, 2011		July 31, 2010
Carrying value of inventory:				
Dore	**$**	**1,494**	$	484
Work-in-process		**160**		160
Supplies		**500**		421
	$	**2,199**	$	1,065

For the year ended July 31,		**2011**		2010
Inventory included in cost of sales:				
Mined ore	**$**	**13415**	$	10,728
Purchased concentrate		**9,752**		1,054
	$	**23,167**	$	11,782

6. Mining Interest, Plant and Equipment

				July 31 2011		
		Cost		**Accumulated amortization and depletion**		**Net book value**
Mining interest	$	39,747	$	6,182	**$**	**33,565**
Plant and equipment		8,424		2,978		**5,446**
Corporate office equipment, vehicles, software and leaseholds		232		181		**51**
	$	**48,403**	**$**	**9,341**	**$**	**39,062**

				July 31, 2010		
		Cost		Accumulated amortization and depletion		Net book value
Mining interest	$	39,507	$	5,045	$	34,462
Plant and equipment		8,607		2,634		5,973
Corporate office equipment, vehicles, software and leaseholds		303		200		103
	$	48,417	$	7,879	$	40,538

7. Note Payable

During the year ended July 31, 2011, the Company acquired a subsidiary, 1794598 Ontario Inc., which owns a Mexican company that has significant Mexican tax assets, including Mexican VAT tax benefits. The Company acquired this subsidiary for $300 payable consisting of $100 on signing the agreement (paid) and the issuance of a promissory note in the amount of $200 (the "Note"). The Note is repayable, $100 each in May, 2011 (paid) and May 2012. Overdue amounts accrue interest daily, are payable monthly following a non-payment and are calculated on amounts in arrears at 15% per annum. As at July 31, 2011, the principal of $100 is due on or before May 31, 2012.

This acquisition was accounted for using the purchase method of accounting. Under this method, the consideration paid is allocated to the fair value of the net assets acquired. During the year ended July 31, 2011, the Company determined that the net assets acquired were fully impaired and $300 was written off to the statement of operations.

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 January 31, 2013 (the "Loan"). The Loan bears interest at LIBOR plus 4% and is secured by all of the assets of Bernal, all of the shares of Bernal and Starcore Mexicana S.A. de C.V., and by a guarantee from the Company. During the year ended July 31, 2011, the effective interest rate to the Company was 4.46% (July 31, 2010 – 4.31%). 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 was 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 January 31, 2011. The Loan warrants expired, on January 31, 2011, unexercised. During the year ended July 31, 2010, the Company settled the Tranche A Loan.

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. During the year ended July 31, 2011, the Company made principal payments on the Tranche B Loan totaling US$1.24 million (July 31, 2010 – US$.026 million). The balance remaining on Tranche B at July 31, 2011 is US$3,510.

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 1,166 ounces per month occur over the period of the Loan from February 28, 2007 to January 31, 2013. As at July 31, 2011, 21,343 (July 31, 2010 – 34,768) ounces remained outstanding under forward sales contracts.

8. Loan Payable – (cont'd)

The Loan is classified as a financial liability at amortized cost ($13,867), less the portion relating to the conversion feature ($1,108) which is classified as an equity component. The Loan discount is the 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. The accretion for the year ended July 31, 2011 was $90 (July 31, 2010 - $148).

	Tranche A Loan	Tranche B Loan	Discount	Total
Balance, July 31, 2009	$ 1,826	$ 5,388	$ (522)	$ 6,692
Payments made during the year	(1,778)	(267)	-	(2,045)
Accretion	-	-	148	148
Foreign exchange fluctuation	(48)	(242)	21	(269)
Balance, July 31, 2010	-	4,879	(353)	4,526
Payments made during the year	-	(1,237)	-	(1,237)
Accretion	-	-	90	90
Foreign exchange fluctuation	-	(288)	20	(268)
Balance, July 31, 2011	$ -	$ 3,354	$ (243)	$ 3,111

A summary of the Loan balance is as follows:

	July 31, 2011	July 31, 2010
Tranche B Loan	**$ 3,354**	$ 4,879
Less: Discount	**(243)**	(353)
	3,111	4,526
Less: Current portion	**(1,844)**	(1,178)
	1,267	3,348
Less: Reclass to current	**(1,267)**	(3,348)
Long-term portion	**$ -**	$ -

The current portion of the Loan Payable above of $1,844 reflects the scheduled payments required to July 31, 2012 under the existing Agreement and includes both the principal and accrued interest payments due over the next twelve months, totaling $1,988, less the discount which is to be accreted over the next twelve months, totaling $144.

Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59 (see note1). This reclassification does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed.

8. Loan Payable – (cont'd)

Principal due for the fiscal year ended:		
July 31,2012	$	**1,988**
2013		**1,366**
	$	**3,354**

9. Reclamation and Closure Cost Obligations

The Company's asset retirement obligations consist of reclamation and closure costs for mines. At July 31, 2011, the present value of obligations is estimated at $1,473 (July 31, 2010: $1,275) based on expected undiscounted cash-flows at the end of the mine life of 37,855,000 Mexican pesos ("MP") or $3,105 (July 31, 2010: $2,824), which the Company estimates calculated annually over 6 to 11 years. Such liability was determined using a credit-adjusted risk free rate of 11% (July 31, 2010: 11%), an inflation rate of 5% (July 31, 2010: 5%).

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 period are as follows:

		July 31,2011		July 31,2010
Balance, beginning of year	**$**	**1,275**	$	1,489
Accretion expense		**153**		126
Foreign exchange fluctuation		**3**		(61)
Revisions in assumptions, estimates and liabilities incurred		**42**		(279)
	$	**1,473**	$	1,275

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

During the year ended July 31, 2011, the Company completed a non-brokered financing for proceeds of $2,543. The financing was in the form of:

a) 10,170,905 Units at $0.11 per Unit for proceeds of $1,119. Each Unit comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 until April 7, 2013. The $1,119 proceeds from the financing were allocated to the shares and warrants, pro rata, using the market value of the shares and the fair value of the warrants. As a result, share capital increased by $883 and warrants increased by $236.

11. Share Capital - (cont'd)

b) Shares issued – (cont'd)

The fair value of the warrants was determined using the Black-Scholes model with the following weighted average assumptions:

Dividend rate	0.00%
Expected life	2 years
Weighted average annual volatility	97%
Weighted average risk free interest rate	1.72%

b) 12,947,276 Special Warrants at $0.11 per Special Warrant for proceeds of $1,424. Each Special warrant was exercisable into one Unit at no additional cost, subject to shareholder approval, which was received June 3, 2011. Upon receipt of shareholder approval, Special Warrant holders received one Unit for each Special Warrant, for a total of 12,947,276 Units consisting of one common share and one-half of one share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 until April 7, 2013. The $1,424 proceeds from the financing were allocated to the shares and warrants, pro rata, using the market value of the shares and the fair value of the warrants. As a result, share capital increased by $1,209 and warrants increased by $215.

The fair value of the warrants was determined using the Black-Scholes model with the following weighted average assumptions:

Dividend rate	0.00%
Expected life	2 years
Weighted average annual volatility	82%
Weighted average risk free interest rate	1.72%

Agents' fees applied in this transaction were in the form of a cash commission of $148 and 2,147,910 nontransferable Agent Warrants with respect to the proceeds raised for the Units and Special Warrants. Each Agent Warrant entitling the holder to acquire one common share of the Company at a price of $0.15 to April 7, 2012. Cash commissions were allocated $120 to share capital and $28 to warrants. Share issue costs include $76 allocated to the fair value of Agents' Warrants issued in respect of the share component of the Units and Special warrants and $17 has been allocated to Warrants in respect of the warrant component of the Units and Special Warrants.

The fair value of agents' warrants was determined using the Black-Scholes model with the following weighted-average assumptions:

Dividend rate	0.00%
Expected life	1 year
Weighted average annual volatility	98%
Weighted average risk free interest rate	1.72%

11. Share Capital - (cont'd)

b) Shares issued – (cont'd)

During the year ended July 31, 2010, the Company completed a non-brokered financing for proceeds of $2,200. The financing was in the form of 22,000,000 Units at $0.10 per Unit, each Unit comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 to November 26, 2010 and January 22, 2011. The $2,200 proceeds from the financing were allocated to the shares and warrants, pro rata, using the market value of the shares and the fair value of the warrants. As a result, share capital increased by $1,816 and warrants increased by $384.

The fair value of the warrants was determined using the Black-Scholes model with the following weighted average assumptions:

Dividend rate	0.00%
Expected life	1 year
Weighted average annual volatility	86%
Weighted average risk free interest rate	1.34%

An agent's fee applied in this transaction in the form of a cash commission of $129 and 1,842,500 nontransferable Agent Warrants, each Agent Warrant entitling the holder to acquire one common share of the Company at a price of $0.15 to November 26, 2010. Cash commissions were allocated pro rata to the share and warrant components of the Units, as such share capital was reduced by $106 and warrants were reduced by $23. Share issue costs include $144 allocated to the fair value of Agents' Warrants. The fair value of the Agent's warrants was allocated pro rata to the share and warrant components of the Units, as such Share capital was reduced by $119 and warrants was reduced by $25.

The fair value of agents' warrants was determined using the Black-Scholes model with the following weighted-average assumptions:

Dividend rate	0.00%
Expected life	1 year
Weighted average annual volatility	86%
Weighted average risk free interest rate	1.34%

The fair values of all warrants have been excluded from the statement of cash flows.

c) Options Outstanding

During the year ended July 31, 2011, the Company granted directors, officers, employees and consultants incentive stock options, entitling them to purchase up to 960,000 common shares at $0.15 per share for 5 years. During the year ended July 31, 2010, the Company granted directors, officers, employees and consultant's incentive stock options, entitling them to purchase up to 10,300,000 common shares at $0.15 and $0.21 per share for 5 years. A summary of the Company's outstanding stock options as of July 31, 2011 and July 31, 2010 and the changes during the periods then ended is presented below:

11. Share Capital - (cont'd)

c) Options Outstanding – (cont'd)

	Number of options	Weighted average exercise price
Outstanding at July 31, 2009	Nil	N/A
Options granted	10,300,000	$0.16
Options forfeited	(860,000)	$0.15
Outstanding at July 31, 2010	9,440,000	$0.16
Options granted	960,000	$0.15
Options forfeited	(990,000)	$0.15
Outstanding at July 31, 2011	**9,410,000**	**$0.16**
Exercisable at July 31, 2011	**8,566,666**	**$0.16**

At July 31, 2011, there were 9,410,000 share purchase options outstanding, entitling the holders thereof the right to purchase one common share for each option held, as follows:

Number of Shares	Exercisable	Exercise Price	Time to Expiry	Expiry Date
7,050,000	7,050,000	$0.15	3.28 years	November 9, 2014
1,000,000	1,000,000	$0.21	3.44 years	January 10, 2015
400,000	266,666	$0.15	3.65 years	March 26, 2015
750,000	250,000	$0.15	4.19 years	October 6, 2015
210,000	-	$0.15	4.77 years	May 6, 2016
9,410,000	**8,566,666**	**$0.16**	**3.42 years**	

d) Stock Based Compensation

The Company, in accordance with the policies of the TSX, 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 two fiscal years was estimated using the Black-Scholes option-pricing model with the following assumptions and other information at date of grant:

11. Share Capital – (cont'd)

d) Stock Based Compensation – (cont'd)

Year ended July 31,	**2011**	2010
Number of options granted	960,000	10,300,000
Fair value	$70	$824
Dividend Rate	n/a	n/a
Risk free interest rate	1.91%	2.43%
Expected life	5 years	5 years
Expected annual volatility	79%	80%
Average strike price	$0.15	$0.16
Weighted average fair value per option	$0.07	$0.08

During the year ended July 31, 2011, the Company has stock-based compensation expense of $235 (July 31, 2010: $457), which has been recorded in the statement of operations and credited to contributed surplus. Of these amounts, an expense of $79 (2010 – $78) was reported as Cost of Sales – Mined ore and Administrative Expenses – Stock-based compensation was $156 (2010 – $379).

e) Warrants Outstanding

Pursuant to the financing during the year ended July 31, 2011, and in conjunction with the private placements during the year, the Company issued 11,559,085 warrants, each warrant entitles the holder to acquire one common share of the Company at $0.15 until April 7, 2013 respectively.

In conjunction with the financing, the Company issued 960,455 and 1,187,455 warrants to agents, exercisable at $0.15 until April 7, 2012.

Pursuant to the $2,200 financing during the year ended July 31, 2010, the Company issued 7,500,000 and 3,500,000 warrants, each warrant entitles the holder to acquire one common share of the Company at $0.15 to November 26, 2010 and January 22, 2011 respectively.

In conjunction with the financing, the Company issued 1,842,500 warrants to agents, exercisable at $0.15 until November 26, 2010.

During the year ended July 31, 2011, the Company extended the expiry of 10,487,500 warrants and 1,842,500 agent's warrants from November 26, 2010 to November 26, 2011. Of the remaining warrants, 512,500 exercisable by directors and officers of the Company at $0.15 were not extended and expired unexercised. The fair value of the expiry extension was determined to be $55 and was recognized in equity during the year.

The fair value of the expiry extension was determined using the Black-Scholes model with the following weighted-average assumptions:

Dividend rate	0.00%
Expected life	1 year
Weighted average annual volatility	90%
Weighted average risk free interest rate	1.43%

11. Share Capital – (cont'd)

e) Warrants Outstanding – (cont'd)

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 were exercisable at a price of Cdn$0.76 (or US$0.643) per share and expired unexercised on January 31, 2011. The remaining 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.

A summary of the Company's outstanding share purchase warrants at July 31, 2011 and 2010 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average Exercise price
Outstanding and exercisable at July 31, 2009	37,238,857	$ 0.80
Warrants expired	(18,002,857)	$ 0.80
Warrants issued	12,842,500	$ 0.15
Outstanding and exercisable at July 31, 2010	32,078,500	$ 0.54
Warrants issued for private placement	11,559,085	$ 0.15
Warrants issued to agents	2,147,910	$ 0.15
Warrants expired	(12,954,500)	$ 0.74
Outstanding and exercisable at July 31, 2011	**32,830,995**	**$ 0.30**

During the year ended July 31, 2011, $735, representing the fair value of 12,954,500 warrants which expired unexercised in the year, was transferred from Warrants to Contributed Surplus; this amount has been excluded from the statement of cash flows. Included in future income tax recovery (expense) is a recovery of $97, associated with the unexercised expiry of these warrants.

During the year ended July 31, 2010, $2,251, representing the fair value of 18,002,857 warrants which expired unexercised in the year, was transferred from Warrants to Contributed Surplus; this amount has been excluded from the statement of cash flows. Included in future income tax recovery (expense) was a recovery of $300, associated with the unexercised expiry of these warrants.

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 short-term investments carried at their fair value. Based on a market price of LIBOR plus 6%, the fair value of the loan payable at July 31, 2011 was $3,290 (July 31, 2010 - $4,730). 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.

12. Financial Instruments – (cont'd)

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, 2011, 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	$	186	MP	220
Other working capital amounts - net	$	1,283	MP	(21,297)
Long-term liabilities	$	-	MP	30,675

At July 31, 2011, US dollar amounts were converted at a rate of $0.956 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP11.741 to $1 US Dollar. A 10% increase or decrease in the US dollar exchange may increase or decrease annual earnings from mining operations by approximately $1,300. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately $1,200.

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, 2011. 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 annual net income by approximately $31.

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, 2011 is $712. Cash of $694 are held, primarily, at a chartered Canadian financial institution, the remainder of $18 is held at a Mexican financial institution. All trade receivables are owing from one customer and are receivable in US dollars.

The Company is also exposed to credit risk with respect to its short-term investments; the balance at July 31, 2011 is $1,250. All short-term investments are held at a Canadian financial institution.

12. Financial Instruments – (cont'd)

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, 2011, the Company was holding cash of $712, short term investments of $1,250 and prepaid expenses and advances of $1,593.

Future obligations due at July 31,	2011	2012	2013	2014	2015 and beyond
Accounts Payable and accrued liabilities	$ 6,372	$ -	$ -	$ -	$ -
Note payable *	100	-	-	-	-
Loan payable *	3,111	-	-	-	-
Forward contract obligations	11,137	7,242	-	-	-
Reclamation and closure obligations	-	-	-	-	1,473
Other long-term liabilities	-	-	-	-	2,632

*Loan payable is shown as current (see note 1), however, payment schedule is currently to January 2013 as shown in note 9.

The Company's accounts payable and accrued liabilities, current portion of its loan payable, and current portion of its forward contract obligations are due in the short term. Long-term obligations include the Company's loan payable, forward contract obligations, 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 notes 1 and 9). The Company continues to make all debt, interest payments and forward contract sales payments as required under the Agreement with Investec. 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.

13. Commitments

Except as disclosed elsewhere in these consolidated financial statements, the Company has the following commitments outstanding at July 31, 2011:

Forward Sales Contracts

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 21,343 ounces to January 31, 2013, as at July 31, 2011 was negative US$19,235 (July 31, 2010 - US$15,883) based on a gold value of US$1,621 per ounce (July 31, 2010 – US$1,180). Changes to the Company's forward contract obligations for the year ended July 31, 2011and 2010 are as follows:

13. Commitments – (cont'd)

Forward Sales Contracts – (cont'd)

	USD	CAD
Balance, July 31, 2009	(11,614)	(12,514)
Unrealised forward contract loss	(4,269)	(4,491)
Foreign exchange fluctuation	-	673
Balance, July 31, 2010	(15,883)	(16,332)
Unrealised forward contract loss	(3,352)	(3,357)
Foreign exchange fluctuation	-	1,310
Balance, July 31, 2011	(19,235)	(18,379)
Current portion, July 31, 2011	11,656	11,137
Long-term portion, July 31, 2011	**$ (7,579)**	**$ (7,242)**

Effectiveness of the forward contracts against the price of gold for the years ended July 31, 2011 and 2010:

For the year ended July 31,	**2011**	2010
Net unrealised forward contract loss	$ (3,357)	$ (4,491)
Realised forward contract loss	(9,184)	(5,382)
Net gain (loss) on forward contract obligations	**$ (12,541)**	$ (9,873)

Other Commitments

a) A term of the Loan (note 8) requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2011, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at July 31, 2011, is approximately US$650 in accordance with the Loan repayment schedule. The Company used all but $49 of this account to fund loan principal payments during the year ended July 31, 2008. The Company is required to refund the DSRA as soon as excess operating funds are available from mine operations. The principal due over the next twelve months ended July 31, 2012 is $1,988 (see Note 8) and is in addition to the funding of the DSRA.

Except as disclosed elsewhere in these consolidated financial statements, the Company has the following commitments outstanding at July 31, 2011:

b) As at July 31, 2011, the Company has shared lease commitments for office space, of $101 until February 2013 and $107 thereafter until February 2015, which included minimum lease payments, and estimated taxes, but excluded operating costs, to expiry in February 2013.

c) As at July 31, 2011, the Company has management contracts to officers and directors totaling $300 per year, payable monthly, expiring in January, 2013.

14. Segmented Information

During the year ended July 31, 2011, 100% of the Company's reportable sales were to two third parties. The balance owing from these customers on July 31, 2011 was $172 (July 31, 2010 - $Nil). The Company operates in two reportable geographical and one operating segment. Selected financial information by geographical segment is as follows:

		Mexico		**Canada**		**July 31, 2011 Total**
Revenue	$	39,465	$	-	**$**	**39,465**
Amortization and depletion		2,344		35		**2,379**
Interest on long term debt		189		-		**189**
Accretion on long-term debt		90		-		**90**
Net loss for the year		(2,613)		(1,452)		**(4,065)**
Mining interest, plant and equipment		39,011		51		**39,062**
Total assets		44,691		1,904		**46,595**

		Mexico		Canada		July 31, 2010 Total
Revenue	$	23,201	$	-	$	23,201
Amortization and depletion		2,117		47		2,164
Interest on long term debt		282		-		282
Accretion on long-term debt		148		-		148
Net loss for the year		(1,832)		(1,896)		(3,728)
Mining interest, plant and equipment		40,435		103		40,538
Total assets		43,930		1,240		45,170

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, except as disclosed in Note 1.

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:

Year ended July 31,	**2011**	2010
Loss before income taxes	**$ (1,662)**	$ (4,080)
Canadian statutory income tax rate	**27.33%**	28.50%
Income tax recovery at statutory rate	**(455)**	(1,163)
Difference from higher statutory tax rates on foreign subsidiaries	**-**	(38)
Impact of change in tax rates on future income taxes	**-**	(29)
Non-deductible items for tax purposes	**56**	143
Deductions for tax purposes, not for accounting	**-**	(734)
Adjustment of provision to statutory tax returns	**-**	(548)
Mexican flat tax	**2,870**	2,070
Non-capital loss carry forwards	**-**	-
Change in valuation allowance and other	**(110)**	(54)
Future and current income taxes	**$ 2,361**	$ (352)

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

July 31,	**2011**	2010
Future income tax assets (liabilities):		
Mining interest, plant and equipment	**$ (9,199)**	$ (9,394)
Mineral properties	**1,672**	1,559
Payments to defer	**(8)**	(3)
Insurance	**(17)**	(33)
Supplies	**8**	(23)
Provision for reclamation and closure	**462**	483
Expenses reserve	**55**	60
Pension-fund reserve	**-**	31
Profit sharing employees	**703**	791
Forward contract obligations	**5,514**	4,900
Share issuance costs	**59**	75
Net capital losses available	**92**	-
Non-capital losses available for future years	**2,045**	1,637
	1,386	83
Valuation allowance	**(3,842)**	(3,313)
Future income tax liability	**$ (2,456)**	$ (3,230)

16. Income Taxes – (cont'd)

At July 31, 2011, the Company has tax losses of approximately $8,073 (July 31, 2010: $6,306) in Canada and $Nil (July 31, 2011: $Nil) in Mexico available for carry-forward to reduce future years' income taxes, expiring up to 2031 in Canada. The Company also has capital losses, in Canada, of approximately $737 (July 31, 2010: $Nil) for carry-forward to reduce future years' taxable capital gains.

In addition, the Company has available mineral resource related expenditure pool totaling approximately $6,700 (July 31, 2010: $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

In 2008, the Mexican senate approved the Business Flat Tax ("IETU"), 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 applies to individuals and corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5%.

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.

17. Subsequent Events

Subsequent to July 31, 2011, 250,000 stock options granted to an employee were forfeited upon his resignation and 425,000 shares were issued at $0.15 per share pursuant to the exercise of share purchase warrants