



## **MANAGEMENT DISCUSSION & ANALYSIS**

For the period ended January 31, 2010

***Directors and Officers as at March 15, 2010:***

***Directors:***

Gary Arca  
Robert Eadie  
Dave Gunning  
Cory Kent  
Arturo Prestamo  
William Sheriff  
Ken Sumanik  
Federico Villaseñor

***Officers:***

***President*** – Robert Eadie  
***Chief Executive Officer*** – Jose Agustin Garcia Garcia  
***Chief Financial Officer*** – Gary Arca  
***Chief Operating Officer*** – Dave Gunning  
***Corporate Secretary*** – Cory Kent

***Contact Name:*** Gary Arca

***Contact e-mail address:*** garca@starcore.com

***TSX Symbol:*** SAM

**Form 51-102-F1**

# **STARCORE INTERNATIONAL MINES LTD.**

## **MANAGEMENT DISCUSSION & ANALYSIS**

For the Period Ended January 31, 2010

### **1. Date of This Report**

This MD&A is prepared as of March 15, 2010.

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

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

### **2. Overall Performance**

#### *Description of Business*

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

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the period ended January 31, 2010, the cash flow generated from operations and from share issuances exceeded the cash flow used in repaying the loan payable and in investing activities by \$1,881 bringing the Company's cash balance to \$2,899. At January 31, 2010 the Company had working capital deficiency of \$1,451. The ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production and continued delivery of purchased concentrate at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions; there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement ("Agreement") with Investec Bank (U.K.) Limited ("Investec"), as required by the Agreement. As at the quarter ended January 31, 2009, however, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. This represented a default under the Agreement with Investec. The Company received a waiver of this default from Investec at April 30, 2009 on the condition that the Company obtain additional financing or otherwise rectify the default by June 30, 2009. The working capital ratio was corrected by June 30<sup>th</sup>, 2009 and the Company continues to meet the ratio requirement. As a result, the Company may or may not be in default of certain provisions of the Agreement. Investec has also informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues satisfactorily with Investec. Due to the uncertainty regarding the Agreement status, management believes it is conservative to reclassify the Loan as current on the balance sheet. This reclassification is made to conform to the requirements of EIC-122 and EIC-59 and in no way affects the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principle, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

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

### ***Recent Events***

On December 7, 2009, Mr. Jose Agustin Garcia Garcia was appointed Chief Executive Officer of the Company. Mr. Garcia is a resident of Mexico, with a Mining and Metallurgical Engineering degree from Universidad Nacional Autonoma de Mexico, and an MS in Geology from the University of Pennsylvania. He is also a graduate of the OPM Graduate Course from Harvard University. His career in the mining industry spans over 34 years, including the positions of Mine Manager in Naica Chihuahua Mine (known for its copper, zinc and silver selenite crystals), training in the departments of geology, smelting and engineering, as well as Chief of the Engineering Department of Bethlehem Steel Corporation. Currently, he is Chairman and CEO of a private company with massive land holdings and interests in mining concessions in various states in Mexico. Mr. Garcia's professional associations include tenures as President of the College of Mines (Mexico), President of Mexican Small Mines Association (Mexico), President of the Academy of Engineering Mining Chapter, a former Member of the Chamber of Mines Board of Directors, and a former member of the Peñoles Board of Directors.

### **3. Selected Annual Information**

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

	<b>July 31, 2009</b>	July 31, 2008	July 31, 2007
Revenues	\$ 24,050	\$ 27,066	\$ 18,499
Cost of Sales	18,878	23,761	12,324
Earnings from mining operations	5,172	3,305	6,175
Administrative Expenses	2,516	4,280	6,850
Income (loss) before extraordinary items			
(i) Total income (loss)	\$ 911	\$ (2,567)	\$ (2,218)
(ii) Income (loss) per share - basic	\$ 0.02	\$ (0.04)	\$ (0.06)
(iii) Income (loss) per share - diluted	\$ 0.01	\$ (0.04)	\$ (0.06)
Net loss			
(i) Total income (loss)	\$ 911	\$ (2,567)	\$ (2,218)
(ii) Income (loss) per share - basic	\$ 0.02	\$ (0.04)	\$ (0.06)
(iii) Income (loss) per share - diluted	\$ 0.01	\$ (0.04)	\$ (0.06)
Total assets	\$ 46,256	\$ 47,261	\$ 50,109
Total long-term liabilities	\$ 12,669	\$ 17,876	\$ 18,903

### **4. Results of Operations**

#### ***Discussion of Acquisitions, Operations and Financial Condition***

The following should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes attached hereto for the period ended January 31, 2010.

#### **4.1 San Martín Mine, Queretaro, Mexico**

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

#### ***Reserves***

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

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

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

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

See the Technical Report, available on SEDAR, for further information on the San Martin Mine. The above report, filed recently on SEDAR, reduces total Proven and Probable resources to 83,800 Equivalent Gold Ounces (EqAuOz) from the previously reported amount of 151,000 EqAuOz. This decrease is due both to the mining activity since the previous report dated December 31, 2006 produced by Watts, Griffis & McOuat Limited at the time of the Acquisition, and to lower average Gold and Silver grade as a result of additional information available since the previous report was completed. Inferred Resources have also decreased from an estimated 480,000 EqAuOz to 213,000 EqAuOz above due largely to the exclusion of the San Pedrito resource (previously reported at 183,000 EqAuOz) which was determined to be uneconomical due to water issues and inaccessibility.

### Production

The following table is a summary of mine production statistics for the San Martin mine for the three and twelve months ended January 31, 2010 and the cumulative amounts for the year ended January 31, 2009.

(Unaudited)	Unit of measure	Actual results for three months ended January 31, 2010	Actual results for 12 months ended January 31, 2010	Actual results for 12 months ended January 31, 2009
Production of Gold in Dore	thousand ounces	5.2	19.3	19.0
Production of Silver in Dore	thousand ounces	41.9	170.7	160.3
Equivalent ounces of Gold	thousand ounces	5.8	21.9	21.6
Silver to Gold Equivalency Ratio		63:1	66:1	62:1
Gold grade	grams/tonne	2.39	2.45	2.50
Silver grade	grams/tonne	32	34	33
Gold recovery	percent	90%	90%	89%
Silver recovery	percent	55%	58%	57%
Milled	thousands of tonnes	74.6	273.0	266.2
Mine development, preparation and exploration	meters	1,186	4,697	4,782
Operating Cost per tonne milled	US dollars/tonne	31	32	35
Operating Cost per Equivalent Ounce	US dollars/ounces	404	419	433
Number of employees and contractors at minesite		268	268	268

During the quarter ended January 31, 2010, the mill operated at a rate of approximately 748 milled tonnes/calendar day. Gold and silver grades were 2.39 g/t and 32 g/t, respectively, compared to prior quarter grades of 2.32 g/t and 33 g/t. Overall equivalent gold production of 5,800 ounces was higher than the previous quarter production of 5,400 ounces due mainly to increased production to 74,600 tonnes compared to 69,100 in the prior quarter ended October 31, 2009.

Production costs of the mine for the current quarter were lower at US\$404/EqOz. and at US\$419/EqOz for the past twelve months compared to the prior quarter cost of US\$449/EqOz and the average of US\$433/EqOz for the twelve months ended January 31, 2009. The Company cost savings measures implemented at the mine level are continuing as indicated by cost per tonne at US\$31/t in the current quarter while maintaining US\$32/t in past twelve months compared to US\$35/t for the twelve month period ended January 31, 2009. The mine plan has been developed to ensure the mine is properly developed and mined so as to ensure a constant supply of ore in accordance with currently planned production capacity and ore grades over the next 3 years. Changes to the plan that may involve increased production and capital investment are continually being assessed by Starcore management. Currently, the Company is continuing underground exploration in order to identify higher grade ore zones and has allocated a budget to support year long exploration.

During the quarter ended January 31, 2010, the Company incurred approximately US\$729 in mine capital expenditures, which includes mine development drifting and drilling, machinery and equipment leases and purchases and construction and tailings dam remediation, compared to US\$723 in the prior quarter.

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

Sales of Metal produced by the milled ore from the mine, along with purchased ore concentrate, over the January 31, 2010 quarter of operations approximated 4,427 ounces of gold and 37,833 ounces of silver sold at average prices in the period of US\$828 and US\$18 per ounce, respectively. The gold average price realized was reduced in the quarter, compared to market prices, due to the sale of 3,421 ounces of gold pursuant to existing gold sales contracts which are fixed at US\$731 per ounce, payable based on the month end London Metals Exchange spot gold price. The Company has forward sales remaining at January 31, 2010 of 41,362 ounces at the rate of approximately 1,148 ounces per month until January 31, 2013. The Gold average price is also affected by the lower gold production in light of lower purchased concentrate in the current nine-month period as a higher percentage of total production is effectively reduced by the forward sales contracts amounts than in the previous year. Net earnings are only marginally affected, however, as the concentrate is purchased at a small discount from sales value, including processing charges.

#### **4.2 Property Activity**

##### **San Martin properties – Queretaro, Mexico**

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

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

David Gunning, P.Eng., a director of the Company and Chief Operating Officer, is the Company's qualified person on the project as required under NI 43-101 and has prepared the technical information contained in this press release.

**Mineral Property – Cerro de Dolores**

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

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

***Proposed Exploration Program and Future Plans***

As at January 31, 2010 the Company has incurred approximately US\$475 in direct work expenditures on the property. At January 31, 2010, the Company was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp. No exploration costs were incurred during the period ended January 31, 2010 or the years ended July 31, 2009 and 2008.

#### **4.3 Results of Operations**

The Company recorded net income for the period ended January 31, 2010 of \$639 as compared with a loss of \$131 for the period ended January 31, 2010. The details of the Company's operating results and related revenues and expenses are as follows:

<b>For the period ended January 31,</b>	<b>2010</b>	<b>2009</b>	<b>Variance</b>
<b>Revenues</b>			
Mined ore	\$ 9,202	\$ 9,277	\$ (75)
Purchased ore	277	2,692	(2,415)
	<b>9,479</b>	<b>11,969</b>	<b>(2,490)</b>
<b>Cost of Sales</b>			
Mined Ore	4,990	5,949	(959)
Purchased ore	249	2,537	(2,288)
Reclamation and closure	35	39	(4)
Amortization and depletion	1,065	1,275	(210)
	<b>6,339</b>	<b>9,800</b>	<b>(3,461)</b>
<b>Earnings from mining operations</b>	<b>3,140</b>	<b>2,169</b>	<b>971</b>
<b>Administrative Expenses</b>			
Amortization	23	29	(6)
Stock-based compensation	162	(99)	261
Interest on long-term debt	163	315	(152)
Accretion on long-term debt	105	109	(4)
Professional and consulting fees	197	122	75
Management fees and salary	320	180	140
Office, travel and miscellaneous	348	171	177
Shareholder relations	129	233	(104)
Transfer agent and regulatory fees	10	8	(2)
	<b>(1,457)</b>	<b>(1,068)</b>	<b>(389)</b>
<b>Income (loss) before other income (expense) and taxes</b>	<b>1,683</b>	<b>1,101</b>	<b>582</b>
<b>Other income (expense)</b>			
Foreign exchange gain (loss)	63	(980)	1,043
Investment and interest income	2	94	(92)
Current income taxes	(941)	-	(941)
Future income tax expense	(168)	(346)	178
<b>Net income (loss) for the period</b>	<b>\$ 639</b>	<b>\$ (131)</b>	<b>\$ 770</b>

Revenues included sales of gold and silver at average monthly market prices and based on gold sales contracts as discussed under *section 4.1 - "production"* above. The Company also earned a net profit of \$28 from the purchase and sale of ore concentrate from surrounding mines. The cost of sales above includes non-cash costs for reclamation, amortization and depletion of \$1,088 which is calculated based on the units of production from the mine over the expected mine production as a denominator. This calculation is based solely on the San Martin mine proven and probable reserves and a percentage of inferred resources (excluding San Pedrito) in accordance with the Company's policy of recognizing the value of expected Resources which will be converted to Proven and Probable Reserves, as assessed by management.

The period of operations to January 31, 2010, produced earnings from mine operations of \$3,140 compared to \$2,169 for the period ended January 31, 2009. While ore grades for the current period ended January 31, 2010 averaging 2.39 g/t gold and 32 g/t of silver were comparable to the comparative period, the mined ore amounts were higher due to higher production tonnage and ore revenue was higher due to higher ore prices, however, overall revenue was lower due to reduced production of purchased ore. In addition costs were lower at an average operating cost of US\$404/EqOz for the period ended January 31, 2010, compared to an average operating cost of US\$430/EqOz in the period ended January 31, 2009, due mainly to the lower Mexican Pesos exchange rate in comparison to the US Dollar and also to mine cost efficiencies in drifting and plant costs. Also included in mined ore costs in the current period is non-cash stock based compensation expense of \$37 for the period ended January 31, 2010 compared to recovery of

\$118 for the period ended January 31, 2009. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant.

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

- Office, travel and administration expenses of \$348, an increase of \$177 over the comparative period due in part to additional costs of mine level benefits and cost of travel related meetings with potential financings;
- Professional and consulting fees of \$197 and management fees and salary of \$320, representing an increase of \$75 and \$140, respectively due to higher salaries and to increased use of consultants;
- Interest expense on long term debt decreased by \$152 to \$163 due to lower average debt outstanding in the period and a reduced interest rate;
- Foreign exchange losses reduced by \$1,043 to a gain of \$63 for the period ended January 31, 2010 due to the stabilization of the MXN peso in relation to the US\$, the functional currency of the mining operations; and
- Current and future income taxes of \$941 and \$168, respectively, which include non-cash adjustments at the consolidation of the entities to account for differences between the tax and the accounting base of assets and liabilities. Taxes payable by the Company are subject to Mexican tax laws which are changing. These estimates reflect the best estimate of tax liability by the Company based on the existing interpretation of these laws.

Cash flow from operating activities was \$2,799 during the period ended January 31, 2010, compared to \$136 for the period ended January 31, 2009. Cash flow from operating activities changed in the year due mainly to an increase in earnings from mining operations as discussed above and timing differences in working capital balances. Cash flow from operating activities is determined by removing non-cash expenses from the net income and adjusting for non-cash working capital amounts. Overall cash and equivalents increased during the period ended January 31, 2010 by \$1,881 in the period compared to a decrease of \$1,042 in the comparative period ended January 31, 2009, due mainly to the increase in cash flows from operating activities in the comparative period ended January 31, 2009.

#### ***Investor Relations Activities***

During the period ended January 31, 2010, the Company directly responded to investor inquiries.

#### ***Financings, Principal Purposes & Milestones***

During the period ended January 31, 2010, the Company completed a non-brokered financing for proceeds of \$2.2 million. The financing was in the form of 22,000,000 Units at \$0.10 per Unit, each Unit comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at \$0.15 to November 26, 2010 and January 22, 2011. The warrants have been deemed to have no intrinsic value and, as such, no amount was allocated to the warrants.

A finder'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. Share issue costs include \$144 allocated to the fair value of Agents' Warrants.

All securities issued pursuant to the private placement are subject to a four month hold period to March 27, 2010.

## 5. Summary of Quarterly Results

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

	Q2 31-Jan-10	Q1 31-Oct-09	Q4 31-Jul-09	Q3 30-Apr-09	Q2 31-Jan-09	Q1 31-Oct-08	Q4 31-Jul-08	Q3 30-Apr-08
Total Revenue	\$ 4,616	\$ 4,866	\$ 6,959	\$ 5,122	\$ 5,340	\$ 6,629	\$ 6,999	\$ 7,218
Earnings from mining operations	\$ 1,453	\$ 1,687	\$ 2,293	\$ 710	\$ 1,210	\$ 959	\$ 305	\$ 1,010
Net Income (loss)	\$ 77	\$ 562	\$ 1,422	\$ (380)	\$ (22)	\$ (109)	\$ (654)	\$ 218
Per share – basic	\$ 0.00	\$ 0.01	\$ 0.02	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ 0.00
Per share – diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ 0.00

### ***Discussion***

The Company reports income for the quarter of \$77 compared to \$562 in the prior quarter ended October 31, 2009. The earnings from mining operations were lower due mainly to a temporary increase in administrative expenses relating to office, travel and miscellaneous. For more detailed discussion on the quarterly production results and financial results for the quarter ended January 31, 2010, please refer to *Sections 4.1 and 4.3 under "Results of Operations"*.

## 6. Liquidity, Commitments and Going Concern

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

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the period ended January 31, 2010, the cash used in repaying the loan payable and in investing activities was exceeded by cash flow generated from operations and share issuances by \$1,881 bringing the Company's cash balance to \$2,899 with a working capital deficiency of \$1,451. The ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production and continued delivery of purchased concentrate at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions; there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Agreement with Investec, as required by the Agreement. As at the quarter ended January 31, 2009, however, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. This represented a default under the Agreement with Investec. The Company received a waiver of this default from Investec at April 30, 2009 on the condition that the Company obtain additional financing or otherwise rectify the default by June 30, 2009. The working capital ratio was corrected by June 30<sup>th</sup>, 2009 and the Company continues to meet the ratio requirement. As a result, the Company may or may not be in default of certain provisions of the Agreement. Investec has also informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues satisfactorily with Investec. Due to the uncertainty regarding the Agreement status, management believes it is conservative to reclassify the Loan as current on the balance sheet. This reclassification is made to conform to the requirements of EIC-122 and EIC-59 and in no way

affects the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed.. Management believes that the Company will continue to make Loan principle, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

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.

The Company has the following commitments:

- a) A term of the Loan financing requires that the Company fund a Debt Service Reserve Account ("DSRA") at January 31, 2010, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at January 31, 2010, is approximately US\$585 in accordance with the Loan repayment schedule. The Company has used all but \$49 of this account to fund loan principal payments during the period ended October 31, 2008 and year ended July 31, 2008. The Company is required to refund the DSRA as soon as excess operating funds are available from mine operations. The principal due over the next twelve months ended January 31, 2011 is \$1,182 and is in addition to the funding of the DSRA.
- b) In addition to funding of the DSRA account, as stated above, principal due over future fiscal years are as follows:

**Principal due for the fiscal year ended:**

July 31, 2010	626
2011	1,322
2012	2,226
2013	1,534
	<b>\$ 5,308</b>

- c) In order to exercise an initial option and acquire a 51% interest in Cerro de Dolores, the Company must issue a total of 250,000 common shares and incur US\$1.4 million in exploration expenditures on the property over a four year period as follows.

At January 31, 2010, the Company was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp.

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

## **7. Capital Resources**

The capital resources of the Company are the mining interests, plant and equipment as well as the mineral properties, with amortized historical costs of \$41,434 and \$806 as at January 31, 2010, respectively. The Company is committed to further expenditures of capital required to maintain and to further develop the San Martin mine which management believes will be funded directly from the cash flow of the mine. In addition, the Company is committed to capital expenditures required to maintain Mineral properties in good standing, as detailed in *Section 4.2*.

**8. Off Balance Sheet Arrangements**

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

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US\$731 per ounce until January, 2013. These gold sales contracts are excluded from the definition of derivatives because the obligation may be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of normal sales contracts in accordance with the Company's Revenue Recognition Policy in Note 2 of its audited financial statements for the year ended July 31, 2009 (see note 1 – Nature of Operations and Going Concern). The fair value of the remaining gold sales contracts for the sale of 41,362 ounces to January 31, 2013, as at January 31, 2010 was negative US\$14,925 (July 31, 2009 - US\$11,614) based on a gold value of US\$1,080 per ounce (July 31, 2009 – US\$936).

**9. Transactions with Related Parties**

There were no material reportable Related Party transactions.

**10. Second Quarter**

Due to mine operating activity upon the acquisition of the San Martin mine discussed throughout this MD&A and as detailed in Section 4.1, the operations and activities are similar to previous quarters, however the first quarter results differ from previous quarters in prior years as a result of a net income for the period.

**11. Critical Accounting Estimates**

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada.

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

- The treatment of mine development costs as either an asset or an expense;
- Whether long-lived assets are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize 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.
- Financial instruments

As the estimation process is inherently uncertain, actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the financial statements. The accounting policies of the

Company as presented in notes 2, 8, 9 and 12 of the Company's July 31, 2009 audited consolidated financial statements should be reviewed in conjunction with the critical estimates identified by management above.

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

***Mining interests, plant and equipment***

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

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

***Reclamation and closure cost obligations***

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

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

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

#### ***Income taxes***

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

#### ***Stock-based compensation***

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

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

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

### **12. Changes in Accounting Policies Including Initial Adoption**

There are new CICA accounting standards that have been adopted by the Company effective August 1, 2008. The Company has assessed the impact of these new accounting standards on its annual consolidated financial statements.

- a) Effective August 1, 2008, the Company has adopted new accounting standard Section 1535, “Capital Disclosures”, which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance.
- b) Effective August 1, 2008, the Company has adopted new accounting standard Section 3031 “Inventories”, which requires the accounting treatment for inventories and provides guidance on the determination of inventory costs and their subsequent recognition as an expense, including any write-down to net realizable value.
- c) Effective January 1, 2008, the Company adopted the CICA guidelines of Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These standards replace CICA 3861, *Financial Instruments – Disclosure and Presentation*.

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

### **13. Financial and Other Instruments**

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

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

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

	In '000 of CDN Dollars	In '000 of Mexican Pesos (MP)
Cash and cash equivalents	\$ 1,883	MP 7,373
Other working capital amounts - net	\$ 55	MP (4,986)
Long-term Liabilities	\$ -	MP 33,914

At January 31, 2010 US dollar amounts were converted at a rate of \$1.0693 Canadian dollars to \$1 US dollar and Mexican Pesos were converted at a rate of MP12,9295 to \$1 US Dollar.

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US\$731 per ounce until January, 2013. These gold sales contracts are excluded from the definition of derivatives because the obligation may be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of normal sales contracts in accordance with the Company's Revenue Recognition Policy in Note 2 of its audited financial statements for the year ended July 31, 2009 (see note 1 – Nature of Operations and Going Concern). The fair value of the remaining gold sales contracts for the sale of 41,362 ounces to January 31, 2013, as at January 31, 2010 was negative US\$14,925 (July 31, 2009 - US\$11,614) based on a gold value of US\$1,080 per ounce (July 31, 2009 – US\$936).

### **14. Other**

#### **14.1 Disclosure of Outstanding Share Capital as at March 15, 2010**

	Number	Book Value
<b>Common Shares</b>	<b>82,690,789</b>	<b>\$35,245</b>

During the year ended July 31, 2009, all of the outstanding stock options were forfeited by holders. During the period ended January 31, 2010, the Company granted directors, officers, employees and consultants incentive stock options, entitling them to purchase up to 9,500,000 common shares at \$0.15 and \$0.21 per share for 5 years.

There were 44,057,957 share purchase warrants outstanding as at January 31, 2010 with an average exercise price of \$0.55 per warrant and with expiry dates from February, 2010 to January, 2013, with a possibility of the Loan Tranche B warrants being extended to February, 2013.

## **14.2 Disclosure Controls and Procedures**

### **Disclosure Controls and Procedures**

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

### **Internal Controls Over Financial Reporting**

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

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

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

### **Limitations of Controls and Procedures**

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

**14.3 Additional disclosure**

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

	<b>January 31, 2010</b>	July 31, 2008
<u>Cerro de Dolores - Actual Expenditures</u>		
Acquisition costs	\$ 177	\$ 177
Assaying & sampling	53	53
Consulting fees (Geological & Engineering)	168	168
Drilling	113	113
Field work, equipment & rental	31	31
General & admin	88	88
Labour	28	28
Legal fees, licenses, maps & reports	8	8
Property taxes	18	18
Road construction	33	33
Site visits	51	51
Travel & transportation	38	38
 <b>Total Mineral Properties and Deferred Exploration Costs</b>	 <b>\$ 806</b>	 <b>\$ 806</b>