Starcore International Mines Ltd.

Interim Consolidated Financial Statements

January 31, 2011

(Unaudited)

NOTICE TO READER

The accompanying interim consolidated financial statements for the period ended January 31, 2011 have been prepared by and are the responsibility of the Company's management. These financial statements have not been reviewed or audited by the Company's auditors.

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

	January 31, 2011	July 31, 2010
Assets		
Current		
Cash (notes 12 and 14)	$ 474	$ 824
Short-term investments (note 3)	109	761
Amounts receivable (note 4)	1,572	1,150
Inventory (note 5)	2,033	1,065
Prepaid expenses and advances	373	832
	4,561	4,632
Mining interest, plant and equipment (note 6)	39,886	40,538
	$ 44,447	$ 45,170
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 4,219	$ 3,300
Current portion of note payable (note 8)	100	-
Current portion of loan payable (notes 9 and 14)	3,865	4,526
Current portion of forward contract obligations (note 13)	8,305	6,228
	13,734	14,054
Note payable (note 8)	100	-
Loan payable (notes 9 and 14)	-	-
Forward contract obligations (note 13)	8,958	10,104
Reclamation and closure cost obligations (note 10)	1,422	1,275
Other long-term liabilities (note 11)	2,590	2,633
Future income taxes	2,772	3,230
	32,331	31,296
Shareholders' Equity		
Share capital (note 12)	34,854	34,909
Contributed surplus (note 12)	9,862	9,068
Warrants (notes 9 and 12)	908	1,588
Accumulated other comprehensive loss	(2,880)	(2,970)
Deficit	(30,628)	(28,721)
	12,116	13,874
	$ 44,447	$ 45,170

Nature of Operations and Going Concern (note 1)
Commitments (notes 7, 8, 9, 10, 11, 12 and 14)
Segmented information (note 15)

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 Income
(in thousands of Canadian dollars except per share amounts)
(Unaudited)

	For the three months ended January 31,		For the six months ended January 31,	
	2011	2010	**2011**	2010
Revenues (notes 13 and 14)				
Mined ore	**$ 6,643**	$ 6,039	**$ 13,041**	$ 11,585
Purchased concentrate	**3,012**	-	**3,064**	277
	9,655	6,039	**16,105**	11,862
Cost of Sales				
Mined Ore	**2,597**	2,604	**5,724**	4,990
Purchased concentrate	**2,946**	-	**2,998**	249
Reclamation and closure (note 10)	**106**	17	**125**	35
Amortization and depletion	**604**	542	**1,191**	1,065
	(6,253)	(3,163)	**(10,038)**	(6,339)
Earnings from mining operations	**3,402**	2,876	**6,067**	5,523
Administrative Expenses				
Amortization	**9**	6	**18**	23
Stock-based compensation (note 12)	**14**	162	**108**	162
Interest on long-term debt (note 9)	**50**	88	**105**	163
Accretion on long-term debt (note 9)	**21**	52	**43**	105
Financing fees	**25**	-	**51**	-
Professional and consulting fees	**156**	108	**200**	186
Management fees and salaries	**105**	106	**207**	218
Office, travel and administration	**163**	211	**234**	347
Shareholder relations	**53**	64	**100**	100
Transfer agent and regulatory fees	**7**	4	**9**	9
	(603)	(801)	**(1,075)**	(1,313)
Income before other items and income taxes	**2,799**	2,075	**4,992**	4,210
Other items				
Foreign exchange gain (loss)	**(101)**	46	**(178)**	63
Investment and interest income	**1**	1	**3**	2
Goodwill impairment (note 8)	**-**	-	**(300)**	-
Net realized and unrealized loss on forward contracts (note 13)	**714**	(1,755)	**(5,388)**	(5,905)
Income (loss) before income taxes	**3,413**	367	**(871)**	(1,630)
Foreign taxes expense	**1,164**	(460)	**(1,520)**	(941)
Future income tax recovery (expense)	**795**	82	**484**	889
Net income (loss) for the period	**1,454**	(11)	**(1,907)**	(1,682)
Other Comprehensive income (loss)				
Foreign currency translation adjustment	**(567)**	(326)	**90**	(13)
Comprehensive income (loss) for the period	**$ 887**	$ (337)	**$ (1,817)**	$ (1,695)
Basic income (loss) per share	**$ 0.02**	$ (0.00)	**$ (0.02)**	$ (0.03)
Diluted income (loss) per share	**$ 0.01**	$ (0.00)	**$ (0.02)**	$ (0.03)
Basic weighted average number of shares outstanding	**82,690,789**	72,136,442	**82,690,789**	66,413,615
Diluted weighted average number of shares outstanding	**111,304,789**	72,136,442	**82,690,789**	66,413,615

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)
(Unaudited)

	For the three months ended January 31, 2011	2010	For the six months ended January 31, 2011	2010
Cash provided by				
Operating activities				
Income (loss) for the period	$ **1,454**	$ (11)	$ **(1,907)**	$ (1,682)
Items not involving cash				
Amortization and depletion	**613**	548	**1,209**	1,088
Stock-based compensation	**36**	199	**156**	199
Accretion on long-term debt	**21**	52	**43**	105
Interest on long-term debt	**-**	(46)	**-**	21
Employee profit sharing (note 11)	**(80)**	13	**26**	79
Reclamation and closure cost accretion (note 10)	**106**	17	**125**	35
Good will impairment (note 8)	**-**	-	**300**	-
Unrealized (gain) loss on forward contracts (note 13)	**(2,832)**	407	**1,379**	3,597
Future income tax	**795**	(82)	**(484)**	(889)
Other	**-**	(1)	**-**	(2)
Change in non-cash working capital items				
Prepaid expenses and advances	**768**	331	**444**	93
Short-term investments	**352**	-	**652**	-
Amounts receivable	**(334)**	84	**(459)**	765
Inventory	**(1,025)**	(630)	**(1,012)**	(791)
Accounts payable and accrued liabilities	**979**	(262)	**928**	399
Total cash provided by operating activities	**853**	619	**1,400**	3,017
Financing activities				
Share issuances	**-**	2,200	**-**	2,200
Share issue costs	**-**	(129)	**-**	(129)
Loan payable	**(293)**	(718)	**(595)**	(1,452)
Total cash provided by (used in) financing activities	**(293)**	1,353	**(595)**	619
Investing activities				
Investment in subsidiary (note 8)	**-**	-	**(100)**	-
Mining interest, plant and equipment net of disposals	**(793)**	(782)	**(1,608)**	(1,563)
Total cash used in investing activities	**(793)**	(782)	**(1,708)**	(1,563)
Effect of foreign currency translation on cash	**365**	(350)	**553**	(192)
Net decrease in cash	**132**	840	**(350)**	1,881
Cash, beginning of period	**342**	2,059	**824**	1,018
Cash, end of period	$ **474**	$ 2,899	$ **474**	$ 2,899
Supplementary disclosure of cash flow information				
Cash paid for:				
Interest	$ **50**	$ 134	$ **105**	$ 142
Income taxes	$ **1,164**	$ 460	$ **1,520**	$ 941

Non-cash transactions - note 12

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

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

	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' agents	-	(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 income for the period	-	-	-	-	-	(3,728)	(3,728)
Balance, July 31, 2010	82,690,789	34,909	9,068	1,588	(2,970)	(28,721)	13,874
Stock-based compensation	-	-	156	-	-	-	156
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	-	-	-	-	90	-	90
Net income for the period	-	-	-	-	-	(1,907)	(1,907)
Balance, January 31, 2011	82,690,789	$ 34,854	$ 9,862	$ 908	$ (2,880)	$ (30,628)	$ 12,116

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 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, 2011, the cash flow generated from operations was exceeded by cash used in repaying the loan payable and in investing activities by $350 bringing the Company's cash balance to $474 with a working capital deficiency of $11,828. While these financial statements have been prepared in accordance with the Canadian Generally Accepted Accounting Principles ("Canadian GAAP") applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions, there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement ("Agreement") with Investec Bank (U.K.) Limited ("Investec") (Note 9), as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2010 and January 31, 2011, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. In accordance with reporting requirements, the Company notified Investec and is determining the steps required to rectify the default. As a result of failing to meet this debt covenant, the Company is in default of certain provisions of the Agreement. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues. 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.

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. Interim Reporting

While the information presented in the accompanying financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period in accordance with Canadian generally accepted accounting principles. It is suggested that these interim unaudited financial statements be read in conjunction with the Company's audited financial statements for the year ended July 31, 2010.

These unaudited interim consolidated financial statements follow the same accounting policies and methods as the Company's most recent annual audited consolidated financial statements. Operating results for the three and six months ended January 31, 2011 are not necessarily indicative of the results that can be expected for the year ending July 31, 2011.

3. Short-term Investments

Short-term investments include Guaranteed Investment Certificates and/or Government of Canada Treasury bills with a market value of $109 (July 31, 2010 - $761) earning interest income at approximately 0.5% per annum and maturing in March 2011.

4. Amounts Receivable

	January 31, 2011	July 31, 2010
Value added tax and Goods and Services Tax	**$ 1,307**	$ 876
Customers	**178**	200
Other	**87**	74
	$ 1,572	$ 1,150

5. Inventory

	January 31, 2011	July 31, 2010
Carrying value of inventory:		
Dore	**$ 1,459**	$ 484
Work-in-process	**160**	160
Supplies	**414**	421
	$ 2,033	$ 1,065

5. Inventory – (cont'd)

For the six months ended January 31,		**2011**		2010
Inventory included in cost of sales:				
Mined ore	**$**	**3,127**	$	4,990
Purchased concentrate		**52**		249
	$	**8,722**	$	5,239

6. Mineral Interest, Plant and Equipment

				January 31, 2011		
		Cost		**Accumulated amortization and depletion**		**Net book value**
Mining interest	$	40,049	$	5,700	**$**	**34,349**
Plant and equipment		8,403		2,951		**5,452**
Corporate office equipment, vehicles, software and leaseholds		303		218		**85**
	$	**48,755**	**$**	**8,869**	**$**	**39,886**

				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. Mineral Properties and Deferred Exploration Costs

Cerro de Dolores, Mexico

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

In order to exercise an initial option and acquire a 51% interest in the property, the Company must issue a total of 250,000 (issued) common shares and incur US $1.4 million in exploration expenditures on the property over a six year period to June 2010. To July 31, 2010, the Company has incurred approximately US$475 in direct work expenditures on the property and was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp. No exploration costs were incurred during the years ended July 31, 2010, 2009 and 2008 as a result, management wrote-off $806 of mineral property and deferred exploration costs during the year ended July 31, 2010.

8. Acquisition and Note Payable

During the period ended January 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 as to $100 on signing the agreement (paid) and the issuance of a promissory note in the amount of $200 (the "Note").

This acquisition was accounted for using the purchase method of accounting. Under this method, the residual of the fair value of the consideration paid, less the fair value of the net assets acquired is allocated to goodwill. During the period ended January 31, 2011, the goodwill was deemed to be impaired by management and $300 was written off to the statement of operations.

The Note is payable, $100 each in May, 2011 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 January 31, 2011, the principle repayments of the Note are as follows:

Payable	May 31, 2011	$	100
	May 31, 2012		100
		$	200

9. 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 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., wholly-owned subsidiaries of the Company, and by a guarantee from the Company. During the period ended January 31, 2011, the effective interest rate to the Company was 4.56% (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 period ended January 31, 2011, the Company made principal payments on the Tranche B Loan totaling US$0.59 million (July 31, 2010 – US$.026 million). The balance remaining on Tranche B at January 31, 2011 is US$4,160.

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 January 31, 2011, 28,173 (July 31, 2010 – 34,768) ounces remained under forward sales contracts.

9. Loan Payable – (cont'd)

The Loan is classified as a held-to-maturity liability ($13,867), less the portion relating to the conversion feature ($1,108) which is classified as an equity component. The Loan discount is 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 on a pro-rata basis. The accreted amount for the period ended January 31, 2011 was $43 (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 period	(1,778)	(267)	-	(2,045)
Discount accretion	-	-	148	148
Foreign exchange fluctuation	(48)	(242)	21	(269)
Balance, July 31, 2010	-	4,879	(353)	4,526
Payments made during the period	-	(595)	-	(595)
Discount accretion	-	-	43	43
Foreign exchange fluctuation	-	(118)	8	(110)
Balance, January 31, 2011	$ -	$ 4,166	$ (302)	$ 3,864

A summary of the Loan balance is as follows:

	January 31, 2011	July 31, 2010
Tranche B Loan	**$ 4,166**	$ 4,879
Less: Discount	**(302)**	(353)
	3,864	4,526
Less: Current portion	**(1,210)**	(1,178)
	2,654	3,348
Less: Reclass to current	**(2,654)**	(3,348)
Long-term portion	**$ -**	$ -

Principal due for the fiscal year ended:	
July 31,2011	**$ 650**
2012	**2,082**
2013	**1,434**
	$ 4,166

9. Loan Payable – (cont'd)

The current portion of the Loan Payable above of $1,210 reflects the scheduled payments required to January 31, 2012 under the existing Agreement and includes both the principal and accrued interest payments due over the next twelve months, totaling $1,302, less the discount which is to be accreted over the next twelve months, totaling $92.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Agreement Investec, as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007, made pursuant to the grant of the Loan Facility. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2010 and January 31, 2011, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below a ratio of 110%. In accordance with reporting requirements, the Company notified Investec and is determining the steps required to rectify the default. As a result of failing to meet this debt covenant, the Company is in default of certain provisions of the Agreement. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve these issues. 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.

10. Reclamation and Closure Cost Obligations

The Company's asset retirement obligations consist of reclamation and closure costs for mines. The present value of obligations is currently estimated at $1,422 (July 31, 2010: $1,275) reflecting discounted payments assumed at the end of the mine life of 34,717 Mexican pesos ("MP") or $2,863 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%), and undiscounted cash flows required to settle the obligation is approximately $2,863.

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:

	January 31,2011	July 31,2010
Balance, beginning of year	**$ 1,275**	$ 1,489
Accretion expense	**74**	126
Foreign exchange fluctuation	**20**	(61)
Revisions in assumptions, estimates and liabilities incurred	**53**	(279)
	$ 1,422	$ 1,275

11. 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.

12. Share Capital

a) Authorized

Unlimited common shares with no par value.

b) Shares issued

No shares were issued during the period ended January 31, 2011.

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

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%

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. 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.

12. Share Capital - (cont'd)

c) Options Outstanding

During the period ended January 31, 2011, the Company granted directors, officers, employees and consultants incentive stock options, entitling them to purchase up to 750,000 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 January 31, 2011 and July 31, 2010 and the changes during the periods then ended is presented below:

	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	750,000	$0.15
Options forfeited	(700,000)	$0.15
Outstanding at January 31, 2011	**9,490,000**	**$0.16**
Exercisable at January 31, 2011	**5,693,318**	**$0.16**

At January 31, 2011, there were 9,490,000 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
7,340,000	4,893,319	$0.15	3.71 years	November 9, 2014
1,000,000	666,666	$0.21	3.88 years	January 10, 2015
400,000	133,333	$0.15	4.08 years	March 26, 2015
750,000	Nil	$0.15	4.61years	October 6, 2015
9,490,000	**5,693,318**	**$0.16**	**3.81 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.

12. Share Capital – (cont'd)

d) Stock Based Compensation – (cont'd)

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

	Period ended, January 31, 2011	Year ended, July 31, 2010
Number of options granted	750,000	10,300,000
Fair value	$53	$824
Dividend Rate	n/a	n/a
Risk free interest rate	1.79%	2.43%
Expected life	5 years	5 years
Expected annual volatility	78%	80%
Average strike price	$0.15	$0.16
Weighted average fair value per option	$0.07	$0.08

During the period ended January 31, 2011, the Company has stock-based compensation expense of $170 (January 31, 2010: $199), which has been recorded in the statement of operations and credited to contributed surplus. Of these amounts, an expense of $48 (2010 – $37) was reported as Cost of Sales – Mined ore and Administrative Expenses – Stock-based compensation was $122 (2010 – $162).

e) Warrants Outstanding

Pursuant to the $2.2 million 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 period ended January 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.

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	76%
Weighted average risk free interest rate	1.43%

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.

12. Share Capital – (cont'd)

e) Warrants Outstanding – (cont'd)

The fair value of the 19,236,000 warrants issued pursuant to the Loan was estimated to be $1,108 which was the discount calculated on the Loan. This value of the 19,236,000 warrants was credited to warrants on the balance sheet and, characterized as the discount on the Loan (see note 9). The discount is being charged to the consolidated statements of operations and comprehensive income (loss) and added to the liability over the term of the Loan or as the Loan is repaid on a pro-rata basis.

A summary of the Company's outstanding share purchase warrants at January 31, 2011 and July 31, 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 and 2008	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 expired	(12,954,500)	$ 0.74
Outstanding and exercisable at January 31, 2011	**19,124,000**	**$ 0.41**

During the period ended January 31, 2011, $735, representing the fair value of 12,954,500 warrants which expired in the period, 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 in the period, 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.

13. Financial Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Cash and short-term investments carried at their fair value. Accounts payable and accrued liabilities may be less than book value in the financial statements due to the credit risk of the Company. Based on a market price of LIBOR plus 6%, the fair value of the loan payable at January 31, 2011 was $4,063 (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.

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 January 31, 2011 the Company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos (MP):

13. Financial Instruments – (cont'd)

	In '000 of CDN Dollars		In '000 of Mexican Pesos (MP)	
Cash	$	142	MP	95
Other working capital amounts - net	$	220	MP	(17,899)
Long-term Liabilities	$	-	MP	31,140

At January 31, 2011 US dollar amounts were converted at a rate of $1.002 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP12.139 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 $1,700. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately $1,100.

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 January 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 $45.

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 January 31, 2011 is $474. Cash of $466 are held, primarily, at a chartered Canadian financial institution, the remainder of $8 is held at a Mexican financial institution. All trade receivables are owing from two customers and are receivable in US dollars.

The company is also exposed to credit risk with respect to its short-term investments; the balance at January 31, 2011 is $109. Short-term investments are entirely held at a Canadian financial institution.

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 January 31, 2011, the Company was holding cash of $474 and short term investments of $109.

13. Financial Instruments – (cont'd)

Liquidity Risk – (cont'd)

Future obligations due at January 31,	2011	2012	2013	2014	2015 and beyond
Accounts Payable and accrued liabilities	$ 4,219	$ -	$ -	$ -	$ -
Loan payable *	3,865	-	-	-	-
Forward contract obligations	8,305	8,958	-	-	-
Reclamation and closure obligations	-	-	-	-	1,422
Other long-term liabilities	-	-	-	-	2,590

*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.

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 28,173 ounces to January 31, 2013, as at January 31, 2011 was negative US$17,238 (July 31, 2010 - US$15,883) based on a gold value of US$1,336 per ounce (July 31, 2010 – US$1,180). Changes to the Company's forward contract obligations for the period ended January 31, 2011and the year ended July 31, 2010 are as follows:

	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	(1,355)	(1,379)
Foreign exchange fluctuation	-	448
Balance, January 31, 2011	(17,238)	(17,263)
Current portion, January 31, 2011	8,293	8,305
Long-term portion, January 31, 2011	**$ (8,945)**	**$ (8,958)**

13. Financial Instruments – (cont'd)

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

	January 31, 2011	January 31, 2010
Unrealised forward contract loss	$ (1,379)	$ (3,522)
Realised forward contract loss	(4,009)	(2,383)
Net gain (loss) on forward contract obligations	**$ (5,388)**	$ (5,905)

14. Commitments

a) A term of the Loan financing (note 9) requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2010, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at January 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 January 31, 2012 is $1,302 (see Note 9) and is in addition to the funding of the DSRA.

b) As at January 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, estimated taxes and excluding operating costs to expiry in February 2010.

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

d) Pursuant to the Acquisition agreement (note 1), the Company has granted Goldcorp Inc. a subordinated security interest over the Bernal mining properties as collateral to ensure that Bernal maintains an agreement to sell all silver produced from the mine to Goldcorp Inc. until October, 2029, at the prevailing spot market rate at the time of the silver sale.

15. Segmented Information

During the period ended January 31, 2011, 100% of the Company's reportable sales were to two third parties. The Company operates in two reportable geographical and two (October 2009: three) operating segments. Selected financial information by geographical segment is as follows:

	Mexico	**Canada**	**January 31, 2011 Total**
Revenue	$ 16,105	$ -	**$ 16,105**
Amortization and depletion	1,191	18	**1,209**
Interest on long term debt	105	-	**105**
Accretion on long-term debt	43	-	**43**
Earnings (loss) for the year	(1,224)	(683)	**(1,907)**
Mining interest, plant and equipment	39,801	85	**39,886**
Segment assets	43,663	784	**44,447**

15. Segmented Information – (cont'd)

	Mexico	Canada	January 31, 2010 Total
Revenue	$ 11,862	$ -	$ 11,862
Amortization and depletion	1,065	23	1,088
Interest on long term debt	163	-	163
Accretion on long-term debt	105	-	105
Earnings (loss) for the year	(1,400)	(282)	(1,682)

	Mexico	Canada	July 31, 2010 Total
Mining interest, plant and equipment	40,435	103	40,538
Segment assets	43,930	1,240	45,170

During the period ended January 31, 2011, 100% (January 31, 2010 – 100%) of revenue of the Company was earned from two (2010 – two) customers. The balance owing from these customers on January 31, 2011 was $Nil (July 31, 2010 - $Nil).

16. 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.