Starcore International Mines Ltd.

Condensed Interim Consolidated Financial Statements

For the Three Months ended October 31, 2011

(<u>Unaudited</u>)

NOTICE TO READER OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed interim consolidated financial statements for the period ended October 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.
Condensed Interim Consolidated Statement of Financial Position
(in thousands of Canadian dollars)
(Unaudited)

	October 31, 2011	July 31, 2011 (Note 21)	August 1, 2010 (Note 21)
Assets			
Current			
Cash (note 5)	**$ 915**	$ 712	$ 824
Short-term investments (note 5)	**1,050**	1,250	761
Amounts receivable (note 6)	**3,127**	1,779	1,150
Inventory (note 7)	**2,454**	2,199	1,065
Prepaid expenses and advances	**1,731**	1,593	832
Deferred tax asset - current	**5,073**	3,404	2,496
Total Current Assets	**14,350**	10,937	7,128
Non-Current			
Mining interest, plant and equipment (note 8)	**41,250**	39,104	40,538
Deferred tax asset – non-current	**2,606**	3,364	5,216
Total Non-Current Assets	**43,856**	42,468	45,754
Total Assets	**$ 58,206**	$ 53,405	$ 52,882
Liabilities			
Current			
Trade and other payables	**$ 6,563**	$ 6,372	$ 3,300
Note payable (note 9)	**100**	100	-
Current portion of loan payable (note 10)	**2,535**	2,659	3,937
Current portion of forward contract obligations (note 15)	**15,296**	11,137	6,228
Deferred tax liability - current	**452**	439	549
Total Current Liabilities	**24,946**	20,707	14,014
Non-Current			
Loan payable (note 10)	**-**	-	-
Forward contract obligations (note 15)	**3,606**	7,242	10,104
Rehabilitation and closure cost provision (note 11)	**1,568**	1,473	1,275
Deferred tax liability – non-current	**9,538**	8,785	10,393
Other long-term liabilities (note 12)	**2,845**	2,632	2,633
Total Non-Current Liabilities	**17,557**	20,132	24,405
Total Liabilities	**42,503**	40,839	38,419

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

Starcore International Mines Ltd.
Condensed Interim Consolidated Statement of Financial Position
(in thousands of Canadian dollars)
(Unaudited)

		October 31, 2011		July 31, 2011 (Note 21)		August 1, 2010 (Note 21)
Shareholders' Equity						
Share capital (note 13)		**36,815**		36,750		34,909
Contributed surplus		**10,250**		10,240		9,548
Translation reserve		**(3,525)**		(3,424)		(3,171)
Accumulated deficit		**(27,837)**		(31,000)		(26,823)
Total Shareholders' Equity		**15,703**		12,566		14,463
Total Liabilities and Shareholders' Equity	**$**	**58,206**	$	53,405	$	52,882

Corporate Information (note 1)
Commitments (notes 13 and 15)
Events After the Reporting Date (note 19)

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.
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(in thousands of Canadian dollars except per share amounts)
(Unaudited)

For the three months ended October 31,		2011		2010 (Note 21)
Revenues				
Mined ore	$	10,610	$	6,398
Purchased concentrate		9,789		52
Total Revenues		20,399		6,450
Cost of Sales (note 7)				
Mined ore		3,759		3,626
Purchased concentrate		9,323		57
Total Cost of Sales		(13,082)		(3,683)
Earnings from mining operations		7,317		2,767
Financing costs		(3,378)		(6,261)
Finance revenue		-		2
Foreign exchange gain (loss)		339		(77)
Impairment		-		(300)
Professional and consulting fees		(132)		(153)
Management fees and salaries		(108)		(166)
Office and administration		(100)		(84)
Shareholder relations		(63)		(49)
Earnings (loss) before taxes		3,875		(4,321)
Provision for income and resource taxes recovery (expense)		(712)		923
Earnings for the period		3,163		(3,398)
Other comprehensive income (loss)				
Foreign currency translation differences		(101)		678
Comprehensive income (loss) for the period	$	3,062	$	(2,720)
Basic income per share	$	0.03	$	(0.04)
Diluted income per share	$	0.02	$	(0.04)

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

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

For the three months ended October 31,		2011		2010
Cash provided by				
Operating activities				
Earnings (loss) for the period	$	**3,163**	$	(3,398)
Items not involving cash				
Depreciation and depletion		**1,166**		596
Share-based compensation (note 13)		**12**		120
Interest on long-term debt		**39**		55
Accretion of discount on long-term debt		**65**		59
Employee profit sharing provision (note 12)		**100**		106
Rehabilitation and closure cost accretion (note 11)		**150**		19
Impairment (note 9)		**-**		300
Net loss (gain) on forward contracts (note 13)		**(270)**		4,211
Provision for income and resource tax (recovery) expense		**712**		(931)
Change in non-cash working capital items				
Prepaid expenses and advances		**(70)**		(324)
Amounts receivable		**(1,278)**		(125)
Inventory		**(161)**		13
Accounts payable and accrued liabilities		**(84)**		(51)
Taxes paid		**(951)**		(356)
Cash provided by operating activities		**2,593**		294
Financing activities				
Share issuances		**63**		-
Repayment of loan payable		**(325)**		(302)
Interest paid		**(39)**		(55)
Cash outflows for financing activities		**(301)**		(357)
Investing activities				
Sale of short-term investments		**200**		300
Investment in subsidiary (note 9)		**-**		(100)
Mining interest, plant and equipment net of disposals		**(1,630)**		(815)
Cash outflows for investing activities		**(1,430)**		(615)
Total increase (decrease) in cash		**862**		(678)
Cash, beginning of period		**712**		824
Effect of foreign currency translation on cash		**(659)**		196
Cash, end of period	**$**	**915**	$	342

Non-cash transactions - note 13

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

Starcore International Mines Ltd.

Condensed Interim Consolidated Statement of Changes in Equity for the periods ended October 31, 2011 and 2010
(in thousands of Canadian dollars, except for number of shares)
(Unaudited)

		Number of Shares Outstanding	Amount	Contributed Surplus	Translation Reserve	Accumulated Deficit	Total
Balance, August 1, 2010		82,690,789	$ 34,909	$ 9,548	$ (3,171)	$ (26,823)	$ 14,463
Share-based compensation		-	-	120	-	-	120
Foreign currency translation		-	-	-	678	-	678
Loss for the period		-	-	-	-	(3,398)	(3,398)
Balance, October 31, 2010		82,690,789	34,909	9,668	(2,493)	(30,221)	11,863
Issued for cash pursuant to:							
Private placement	- at $0.11	10,170,905	883	236	-	-	1,119
Private placement	- at $0.11	12,947,276	1,209	215	-	-	1,424
Agents' fees		-	(120)	(28)	-	-	(148)
Fair value of agents' warrants		-	(76)	76	-	-	-
Share-based compensation		-	-	115	-	-	115
Deferred tax recovery on expiry of warrants		-	-	(97)	-	-	(97)
Extension of expiry date of warrants		-	(55)	55	-	-	-
Foreign currency translation		-	-	-	(931)	-	(931)
Loss for the period		-	-	-	-	(779)	(779)
Balance, July 31, 2011		105,808,970	36,750	10,240	(3,424)	(31,000)	12,566
Issued for cash pursuant to:							
Exercise of warrants	- at $0.15	425,000	65	(2)	-	-	63
Share-based compensation		-	-	12	-	-	12
Foreign currency translation		-	-	-	(101)	-	(101)
Earnings for the period		-	-	-	-	3,163	3,163
Balance, October 31, 2011		**106,233,970**	**$ 36,815**	**$ 10,250**	**$ (3,525)**	**$ (27,837)**	**$ 15,703**

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

1. Corporate Information

Starcore International Mines Ltd. is the parent company of its consolidated group (the "Company" or "Starcore") and was incorporated in Canada with its head office located at Suite 750 – 580 Hornby Street, Vancouver, British Columbia, V6C 3B6.

Starcore is engaged in extracting, processing and exploring for gold and silver in Mexico. 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. Bernal is the Company's sole source of operating cash flows.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the Company for the year ending July 31, 2012, will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("Pre-changeover GAAP"). These condensed interim consolidated financial statements for the three month period ended October 31, 2011, have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-Time Adoption of International Financial Reporting Standards has been applied.

As these condensed interim consolidated financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Pre-changeover GAAP have been included in these financial statements for the comparative annual period. However, these condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements and the effect of the transition to IFRS on the reported financial position, financial performance and cash flows of the Company is provided in Note 21.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on January 13, 2012.

2. Basis of Preparation – (cont'd)

b) Going Concern

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the period ended October 31, 2011, the cash flow generated from operations and share issuances exceeded cash used in repaying the loan payable and in investing activities by $862 bringing the Company's cash balance to $915. However, the Company had a working capital deficiency of $10,596 and an accumulated deficit of $27,837. While these financial statements have been prepared in accordance with the IFRS applicable to a going concern, the adverse conditions below cast doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions; there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement (the "Agreement") with Investec Bank (U.K.) Limited ("Investec") (Note 10), as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at October 31, 2011, July 31, 2011 and August 1, 2010, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below 110%. In accordance with reporting requirements, the Company notified Investec and has taken steps to rectify the default. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve their concerns. Management has reclassified the Loan as current on the balance sheet. This reclassification does not affect the repayment schedule of the Loan and Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement to expiry at January 31, 2013.

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. Subsequent to October 31, 2011, the Company issued 12,082,500 and received $1,812 pursuant to the exercise of options, warrants and agent warrants (see note 19).

2. Basis of Preparation – (cont'd)

b) Going Concern of Operations – (cont'd)

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 statement of financial position and consolidated statements of operations and other comprehensive income (loss) and cash flows should this assumption be incorrect and the Company forced to liquidate its assets realize its liabilities prematurely.

c) Basis of Measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of held-for-trading financial assets and other financial liabilities.

The condensed interim consolidated financial statements are presented in Canadian dollars, which is also the parent Company's functional currency, and all values are rounded to the nearest thousand dollar, unless otherwise indicated.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

d) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company's wholly-owned subsidiaries, Starcore Mexicana, S.A. de C.V. (Mexico), SAM Servicios Administrativos Mineros, S.A. de C.V. (Mexico), Compañia Minera Peña de Bernal, S.A. de C.V. (Mexico) and 1794598 Ontario Inc. (Canada) carry out its Operations in Mexico.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated, in full, on consolidation.

3. Summary of Significant Accounting Policies

The accounting policies set out below are expected to be adopted for the year ending July 31, 2012 and have been applied consistently to all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS balance sheet at August 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Foreign Currency Transactions

The functional currency of Starcore, the parent, is Canadian dollars ("CAD") and the functional currency of its subsidiaries is United States dollars ("USD") (collectively "the Functional Currency"). Foreign currency accounts are translated into the Functional Currency as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into the Functional Currency by the use of the exchange rate in effect at that date. At the period end date, unsettled monetary assets and liabilities are translated into the Functional Currency by using the exchange rate in effect at the period end.

Foreign exchange gains and losses are recognized in net earnings and presented in the Consolidated Statements of Earnings in accordance with the nature of the transactions to which the foreign currency gains and losses relate, except for foreign exchange gains and losses from translating available-for-sale investments in marketable securities and equity securities which are recognized in other comprehensive income as part of the total change in fair values of the securities. Unrealized foreign exchange gains and losses on cash and cash equivalent balances denominated in foreign currencies are disclosed separately in the Consolidated Statements of Cash Flows.

b) Foreign Operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates for the period.

The Company's foreign currency differences are recognised and presented in other comprehensive income as a foreign currency translation reserve ("Translation Reserve") a component of equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

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

d) Revenue Recognition

Revenue from the sale of metals is recognized when the significant risks and rewards of ownership have passed to the buyer, it is probable that economic benefits associated with the transaction will flow to the Company, the sale price can be measured reliably, the Company has no significant continuing involvement and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from metal concentrate sales are subject to adjustment upon final settlement of metal prices, weights, and assays as of a date that is typically a up to two weeks after the shipment date. The Company records adjustments to revenues monthly based on quoted forward prices for the expected settlement period. Adjustments for weights and assays are recorded when results are determinable or on final settlement. Accounts receivable for metal concentrate sales are therefore measured at fair value.

e) Inventory

Finished goods and work-in-process are measured at the lower of average cost and net realizable value. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future costs to convert the inventories into saleable form and estimated costs to sell.

Ore extracted from the mines is processed into finished goods (gold and by-products in doré). Costs are included in work-in-process inventory based on current costs incurred up to the point prior to the refining process, including applicable depreciation and depletion of mining interests, and removed at the average cost per recoverable ounce of gold. The average costs of finished goods represent the average costs of work-in-process inventories incurred prior to the refining process, plus applicable refining costs.

Supplies are measured at average cost. In the event that the net realizable value of the finished product, the production of which the supplies are held for use in, is lower than the expected cost of the finished product, the supplies are written down to net realizable value. Replacement costs of supplies are generally used as the best estimate of net realizable value.

The costs of inventories sold during the period are presented in the Consolidated Statements of Comprehensive Earnings.

f) Mining interest, plant and equipment

Mining interests represent capitalized expenditures related to the development of mining properties and related plant and equipment.

Recognition and Measurement

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

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

f) Mining interest, plant and equipment – (cont'd)

Mining expenditures incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized. 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.

Borrowing costs that are directly attributable to the acquisition and preparation for use, are capitalized. Capitalization of borrowing costs, begins when expenditures are incurred and activities are undertaken to prepare the asset for its intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred during the period. All other borrowing costs are expensed as incurred.

The capitalization of borrowing costs is discontinued when substantially all of the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Capitalized borrowing costs are amortized over the useful life of the related asset.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measure reliably. All other repairs and maintenance are charged to the Company's profit or loss during the financial period in which they are incurred.

Subsequent Costs

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in the Company's profit or loss as incurred.

Leased equipment

Leased assets in which we receive substantially all of the risks and rewards of ownership of the asset are capitalized as finance leases at the lower of the fair value of the asset or the estimated present value of the minimum lease payments. The corresponding lease obligation is recorded within debt on the balance sheet.

Assets under operating leases are not capitalized and rental payments are included in earnings based on the terms of the lease.

Derecognition

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.

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

f) Mining interest, plant and equipment – (cont'd)

Depreciation and impairment

Mining interest, plant and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depletion of mine properties is charged on a unit-of-production basis over proven and probable reserves and a portion of resources expected to be converted to reserves. Depreciation of plant and equipment and corporate office equipment, vehicles, software and leaseholds is calculated using the straight-line method, based on the lesser of economic life of the asset and the expected life of mine. Where components of an asset have different useful lives, depreciation is calculated on each separate part. Depreciation commences when an asset is available for use. At the end of the each calendar year estimates of proven and probable gold reserves and a portion of resources expected to be converted to reserves are updated and the calculations of amortization of mining interest, plant and equipment is prospectively revised.

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 of a cash generating unit are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows and carrying value. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

g) Rehabilitation and Closure Cost Provision

The Company records a provision for the estimated future costs of rehabilitation and closure of operating and inactive mines and development projects, which are discounted to net present value using the risk free interest rates applicable to the future cash outflows. Estimates of future costs represent management's best estimates which incorporate assumptions on the effects of inflation, movements in foreign exchange rates and the effects of country and other specific risks associated with the related liabilities. The provision for the Company's rehabilitation and closure cost obligations is accreted over time to reflect the unwinding of the discount with the accretion expense included in finance costs in the Consolidated Statements of Earnings. The provision for rehabilitation and closure cost obligations is re-measured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to risk free interest rates.

Rehabilitation and closure cost obligations relating to operating mines and development projects are initially recorded with a corresponding increase to the carrying amounts of related mining properties. Changes to the obligations are also accounted for as changes in the carrying amounts of related mining properties, except where a reduction in the obligation is greater than the capitalized rehabilitation and closure costs, in which case, the capitalized rehabilitation and closure costs is reduced to nil and the remaining adjustment is included in production costs in the Consolidated Statements of Earnings. Rehabilitation and closure cost obligations related to inactive mines are included in production costs in the Consolidated Statements of Earnings on initial recognition and subsequently when re-measured.

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

h) Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying and sampling costs, drilling costs, payments made to contractors, geologists, consultants, and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to E&E activities, including general and administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, E&E expenditures in respect of that project are deemed to be impaired. As a result, those E&E expenditures, in excess of estimated recoveries, are written off to the Company's profit or loss.

The Company assesses E&E assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction". E&E assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

i) Financial Instruments

Financial instruments are classified as one of the following categories based upon the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently carried at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company's cash, taxes recoverable, and short-term investments are all accounted for as loans and receivables.

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

i) Financial Instruments – (cont'd)

Available-for-Sale

Non-derivative financial assets not included in the above category and other than those qualifying as subsidiaries are classified as available-for-sale. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/profit. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income is recognized in the Company's profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to the Company's profit or loss.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred subsequent to the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprised of trade and other payables, and loan payable. These liabilities are recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortised cost using the effective interest rate method. This ensures that, any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

Derivative Liabilities

Derivative instruments, including embedded derivatives, are recorded at fair value through profit or loss and accordingly are recorded on the balance sheet at fair value. Unrealized gains and losses on derivatives held for trading are recorded as part of earnings. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

Derivative instruments include the Company's forward sales contract (Note 15) and warrants exercisable in USD (Note 10).

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

j) Income Taxes

Current tax and deferred tax are recognized in the Company's profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

k) Share Capital

Financial instruments issued by the Company are classified as equity, only to the extent that they do not meet the definition of a financial liability or asset. The Company's common shares, share warrant and share options are classified as equity instruments.

Incremental costs, directly attributable to the issue of new shares, warrants or options, are shown in equity as a deduction, net of tax, from proceeds.

l) Profit or Loss per Share

Basic profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant period.

Diluted profit or loss per share is computed by dividing the Company's profit or loss applicable to common shares, by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted at the beginning of the period.

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

m) Share-based Payments

Where equity-settled share options are awarded to employees or non-employees, the fair value of the options at the date of grant is charged to the Company's profit or loss over the vesting period. The number of equity instruments expected to vest at each reporting date, are taken into account so that the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modifications, is charged to the Company's profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the Company's profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the Company's profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or forfeited, the Company immediately accounts for the cancellation as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent that the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

n) Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2012 or later periods.

The Company has early adopted the amendments to IFRS which replaces references to a fixed date of "1 January 2004" with "the date of transition to IFRS". This eliminates the need for the Company to restate derecognition transactions that occurred before the date of transition to IFRS. The amendment is effective for year ends beginning on or after July 1, 2011, however the Company has early adopted the amendment. The impact of the amendment and early adoption is that the Company only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

(in thousands of Canadian dollars unless otherwise stated)

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

n) Standards, Amendments and Interpretations Not Yet Effective – (cont'd)

The Company is currently reviewing the following new standards, amendments and interpretations, which have not been early adopted in these condensed interim financial statements, to determine what effect, if any, they will have on the Company's future results and financial position:

IFRS 9	Financial Instruments (New; to replace IAS 39 and IFRIC 9)
IFRS 10	Consolidated Financial Statements (New; to replace consolidation requirements in IAS 27 (as amended in 2008) and SIC-12)
IFRS 11	Joint Arrangements (New; to replace IAS 31 and SIC-13)
IFRS 12	Disclosure of Interests in Other Entities (New; to replace disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31)
IFRS 13	Fair Value Measurement (New; to replace fair value measurement guidance in other IFRSs)
IAS 1	Presentation of Financial Statements, amendments regarding Presentation of Items of Other Comprehensive Income
IAS 19	Employee Benefits (Amended in 2011)
IAS 27	Separate Financial Statements (Amended in 2011)
IAS 28	Investments in Associates and Joint Ventures (Amended in 2011)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (New)

4. Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in the Company's profit or loss in the period of the change, if it affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

a) Economic Recoverability and Profitability of Future Economic Benefits of Mining Interests

Management has determined that mining interests, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

4. Critical Accounting Estimates and Judgements – (cont'd)

b) Rehabilitation Provisions

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provision may be higher or lower than currently provided for.

The inflation rate applied to estimated future rehabilitation and closure costs is 5.0% and the discount rate currently applied in the calculation of the net present value of the provision is 11.0%

c) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recuperated.

d) Share-Based Payment Transactions

The Company measures the cost of equity-settled transactions with employees, and some with non-employees, by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 13.

5. Cash and Short-term Investments

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates. Cash of $2 is held at a Mexican financial institution, the remainder of $913 is held at a chartered Canadian financial institution; the Company is exposed to the risks of those financial institutions.

(in thousands of Canadian dollars unless otherwise stated)

5. Cash and Short-term Investments – (cont'd)

At October 31, 2011, the Company held a Guaranteed Investment Certificate ("GIC") with a market value of $1,050 (July 31, 2011: $1,250; August 1, 2010: $761), earning interest income at prime minus 1.80%% per annum and maturing on April 5, 2012. This GIC was cashable at the Company's option and was considered to be the same as cash.

The Company's short-term investments are held at one financial institution and as such the Company is exposed to the risks of that financial institution.

6. Amounts Receivable

	October 31, 2011	July 31, 2011	August 1, 2010
Value added tax and Goods and Services Tax	**$ 2,875**	$ 1,590	$ 876
Customers	**159**	172	200
Other	**93**	17	74
	$ 3,127	$ 1,779	$ 1,150

7. Inventory

	October 31, 2011	July 31, 2011	August 1, 2010
Carrying value of inventory:			
Dore	**$ 1,864**	$ 1,539	$ 484
Work-in-process	**160**	160	160
Supplies	**430**	500	421
	$ 2,454	$ 2,199	$ 1,065

For the three months ended October 31,	**2011**	2010
Inventory included in cost of sales:		
Mined ore	**$ 2,770**	$ 3,127
Purchased concentrate	**9,148**	52
	$ 11,918	$ 3,179

(in thousands of Canadian dollars unless otherwise stated)

8. Mining Interest, Plant and Equipment

	Mining Interest	Plant and Equipment	Corporate Office Equipment	Total
Cost				
Balance August 1, 2010	$ 39,507	$ 8,607	$ 303	$ 48,417
Additions	3,181	842	-	4,023
Disposals	-	(378)	(71)	(449)
Effect of foreign exchange	(2,899)	(647)	-	(3,546)
Balance July 31, 2011	39,789	8,424	232	48,445
Additions	696	935	-	1,631
Effect of foreign exchange	1,709	359	-	2,068
Balance October 31, 2011	**$ 42,194**	**$ 9,718**	**$ 232**	**$ 52,144**
Depreciation				
Balance August 1, 2010	$ 5,045	$ 2,634	$ 200	$ 7,879
Depreciation for the year	1,572	772	35	2,379
Reversal on disposal	-	(207)	(54)	(261)
Effect of foreign exchange	(435)	(221)	-	(656)
Balance July 31, 2011	6,182	2,978	181	9,341
Depreciation for the period	956	208	2	1,166
Effect of foreign exchange	261	126	-	387
Balance October 31, 2011	**$ 7,399**	**$ 3,312**	**$ 183**	**$ 10,894**
Carrying amounts				
Balance August 1, 2011	$ 34,462	$ 5,973	$ 103	$ 40,538
Balance July 31, 2011	$ 33,607	$ 5,446	$ 51	$ 39,104
Balance October 31, 2011	**$ 34,795**	**$ 6,406**	**$ 49**	**$ 41,250**

9. Note Payable

During the year ended July 31, 2011, the Company acquired a subsidiary, 1794598 Ontario Inc., which owns a Mexican company that has significant Mexican tax assets, including Mexican VAT tax benefits. The Company acquired this subsidiary for $300 payable consisting of $100 on signing the agreement (paid) and the issuance of a promissory note in the amount of $200 (the "Note"). The Note is repayable, $100 each in May, 2011 (paid) and May 2012.

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

(in thousands of Canadian dollars unless otherwise stated)

10. Loan Payable

Pursuant to the Acquisition of Bernal (note 1), the Company arranged a US$13 million bank loan with Investec which is repayable quarterly and matures January 31, 2013 (the "Loan"). The Loan bears interest at LIBOR plus 4% and is secured by all of the assets of Bernal, all of the shares of Bernal and Starcore Mexicana S.A. de C.V., and by a guarantee from the Company. During the period ended October 31, 2011, the effective interest rate to the Company was 4.48% (October 31, 2010 – 4.56%). 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 October 31, 2011, the Company made principal payments on the Tranche B Loan totaling US$0.33 million (October 31, 2010 – US$0.29 million) and paid interest of $39 (October 31, 2010 - $55). The balance remaining on Tranche B at October 31, 2011 is US$3,185.

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 October 31, 2011, 17,928 (July 31, 2011 – 21,343; August 1, 2010 – 34,768) ounces remained outstanding under forward sales contracts.

The Loan is classified an other financial liability at amortized cost ($15,301), less the fair value of the non-transferable warrants ($2,953) which were classified as a derivative under IFRS. The Loan discount is the difference between the face value of the original Loan, US$13,000 or $15,301 less the fair value originally allocated to the non-transferable warrants, US$10,491 or $12,348. As a result, the recorded liability to repay the notes is lower than its face value. The fair value of the warrants was determined using the Black-Scholes valuation calculation using the following assumptions:

Grant Date mm/dd/yy	01/31/07	01/31/07
Expiry Date mm/dd/yy	01/31/11	01/31/12
Spot price	$0.50	$0.50
Exercise price	$0.76	$0.87
Dividend Rate	n/a	n/a
Risk free interest rate	4.08%	4.08%
Expected annual volatility	40%	40%

The discount is being charged to the consolidated statements of comprehensive income (loss) and added to the liability over the term of the Loan or as the Loan is repaid. The accretion for the period ended October 31, 2011 was $65 (October 31, 2010 - $59).

(in thousands of Canadian dollars unless otherwise stated)

10. Loan Payable – (cont'd)

The warrants issued in conjunction with the Loan are exercisable in USD and, as such, are considered to be a derivative liability under IFRS. The original value assigned to the warrants on receipt of the Loan, being $2,953, was subsequently recalculated utilizing the valuation model Black-Scholes at each period end date and any fluctuations are included in the Company's profit or loss. As of October 31, 2011, the fair value of the foreign denominated warrants was $Nil (July 31, 2011 - $Nil; August 1, 2010 - $Nil).

	Tranche A Loan	**Tranche B Loan**	**Discount**	**Total**
Balance, August 1, 2010	$ -	$ 4,879	$ (942)	$ 3,937
Payments made during the year	-	(1,237)	-	(1,237)
Accretion	-	-	239	239
Foreign exchange fluctuation	-	(288)	56	(232)
Balance, July 31, 2011	-	3,354	(647)	2,707
Payments made during the period	-	(325)	-	(325)
Accretion	-	-	65	65
Foreign exchange fluctuation	-	145	(31)	114
Balance, October 31, 2011	$ -	$ 3,174	$ (613)	$ 2,561

A summary of the Loan balance is as follows:

	October 31, 2011	July 31, 2011	August 1, 2010
Tranche B Loan	**$ 3,174**	$ 3,354	$ 4,879
Less: Discount	**(613)**	(647)	(942)
	2,561	2,707	3,937
Less: Current portion	**(1,986)**	(1,557)	(1,025)
	575	1,150	2,912
Less: Reclass to current	**(575)**	(1,150)	(2,912)
Long-term portion	**$ -**	$ -	$ -

The current portion of the Loan Payable above of $1,986 reflects the scheduled payments required to October 31, 2012 under the existing Agreement and includes both the principal and accrued interest payments due over the next twelve months, totaling $2,462, less the discount which is to be accreted over the next twelve months, totaling $476.

Management has reclassified the Loan as current on the balance sheet (see note 1). 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.

(in thousands of Canadian dollars unless otherwise stated)

10. Loan Payable – (cont'd)

Principal due for the fiscal year ended:			
July 31,	2012	**$**	**1,750**
	2013		**1,424**
		$	**3,174**

11. Rehabilitation and Closure Cost Provision

The Company's asset retirement obligations consist of reclamation and closure costs for mines. At October 31, 2011, the present value of obligations is estimated at $1,568 (July 31, 2011 - $1,473; August 1, 2010 – $1,275) based on expected undiscounted cash-flows at the end of the mine life of 37,855,000 Mexican pesos ("MP") or $2,868 (July 31, 2011 - $3,248; August 1, 2010 – $2,824), which the Company estimates calculated annually over 6 to 11 years. Such liability was determined using a credit-adjusted risk free rate of 11% (July 31, 2011 – 11%; August 1, 2010: 11%), an inflation rate of 5% (July 31, 2011 – 5%; August 1, 2010 – 5%).

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

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

	October 31, 2011	July 31, 2011	July 31, 2010
Balance, beginning of year	**$ 1,473**	$ 1,275	$ 1,489
Accretion expense	**150**	153	126
Foreign exchange fluctuation	**(55)**	3	(61)
Revisions in assumptions, estimates and liabilities incurred	**-**	42	(279)
	$ 1,568	$ 1,473	$ 1,275

12. 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.

13. Share Capital

a) Common Shares

The Company is authorized to issue an unlimited number of common shares, issuable in series.

The holders of common shares are entitled to one vote per share at meetings of the Company and to receive dividends, which are declared from time-to-time. No dividends have been declared by the Company since its inception. All shares are ranked equally with regard to the Company's residual assets.

On September 20, 2011, the Company issued 425,000 shares pursuant to the exercise of warrants exercised at $0.15 per share for proceeds of $63. The fair value assigned to warrants when they were issued of $2, were reclassified from contributed surplus to share capital on exercise.

(in thousands of Canadian dollars unless otherwise stated)

13. Share Capital - (cont'd)

a) Common Shares – (cont'd)

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

a) 10,170,905 Units, issued on April 7, 2011, at $0.11 per Unit for proceeds of $1,119. Each Unit comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 until April 7, 2013. The $1,119 proceeds from the financing were allocated to the shares and warrants, pro rata, using the market value of the shares and the fair value of the warrants. As a result, share capital increased by $883 and warrants increased by $236.

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

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

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

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

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

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

(in thousands of Canadian dollars unless otherwise stated)

13. Share Capital - (cont'd)

a) Common Shares – (cont'd)

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

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

b) Warrants

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

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

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

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

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

Pursuant to the Loan financing (Note 10), the Company issued 19,236,000 detachable warrants exercisable to acquire common shares of the Company. 12,442,000 warrants 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.

(in thousands of Canadian dollars unless otherwise stated)

13. Share Capital – (cont'd)

b) Warrants – (cont'd)

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

	Number of warrants	Weighted average Exercise price	Contributed Surplus Amount
Outstanding and exercisable at August 1, 2010	32,078,500	$ 0.54	$ 480
Warrants issued for private placement	11,559,085	$ 0.15	451
Cash paid to agents allocated to warrants	-	-	(28)
Extension of expiry dates	-	-	55
Warrants issued to agents	2,147,910	$ 0.15	76
Warrants expired	(512,500)	$ 0.15	(18)
US Denominated warrants expired	(12,442,000)	$ 0.76	-
Outstanding at July 31, 2011	32,830,995	$ 0.30	1,016
Warrants exercised	(425,000)	$ 0.15	(2)
Outstanding at October 31, 2011	32,405,995	**$ 0.30**	$ 1,014

During the year ended July 31, 2011, $18, representing the fair value of 512,500 warrants which expired unexercised in the year, was transferred from Warrants; this amount has been excluded from the statement of cash flows. Included in deferred income tax recovery (expense) is a recovery of $97, associated with the unexercised expiry of these warrants.

At October 31, 2011, there were 32,405,995 warrants exercisable to purchase one common share for each warrant held as follows:

Number of Shares	Exercise Price	Expiry Date	
11,905,000	$0.15	November 26, 2011	(Note 19)
2,147,910	$0.15	April 7, 2012	
6,794,000	$0.87	January 31, 2013	
11,559,085	$0.15	April 7, 2013	
32,405,995	**$0.30**		

c) Share-based Payments

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.

(in thousands of Canadian dollars unless otherwise stated)

13. Share Capital - (cont'd)

c) Share-based Payments – (cont'd)

The following is a summary of changes in options from July 31, 2011 to October 31, 2011:

Grant Date mm/dd/yy	Expiry Date mm/dd/yy	Exercise Price	Opening Balance	During the Year: Granted	During the Year: Exercised	During the Year: Cancelled/ Forfeited	Closing	Closing, Vested and Exercisable
11/09/09	11/09/14	$0.15	7,050,000	-	-	250,000	6,800,000	6,800,000
01/10/10	01/10/15	$0.21	1,000,000	-	-	-	1,000,000	1,000,000
03/26/10	03/26/15	$0.15	400,000	-	-	-	400,000	400,000
10/06/10	10/06/15	$0.15	750,000	-	-	-	750,000	500,000
05/06/11	05/06/16	$0.15	210,000	-	-	-	210,000	-
			9,410,000	-	-	250,000	9,160,000	8,700,000
Weighted Average Exercise Price			$0.16	-	-	$0.15	$0.16	$0.16

The following is a summary of changes in options from August 1, 2010 to July 31, 2011:

Grant Date mm/dd/yy	Expiry Date mm/dd/yy	Exercise Price	Opening Balance	During the Year: Granted	During the Year: Exercised	During the Year: Cancelled/ Forfeited	Closing	Closing, Vested and Exercisable
11/09/09	11/09/14	$0.15	7,640,000	-	-	590,000	7,050,000	7,050,000
01/10/10	01/10/15	$0.21	1,000,000	-	-	-	1,000,000	1,000,000
03/26/10	03/26/15	$0.15	400,000	-	-	-	400,000	266,666
04/01/10	04/01/15	$0.15	400,000	-	-	400,000	-	-
10/06/10	10/06/15	$0.15	-	750,000	-	-	750,000	250,000
05/06/11	05/06/16	$0.15	-	210,000	-	-	210,000	-
			9,440,000	960,000	-	990,000	9,410,000	8,566,666
Weighted Average Exercise Price			$ 0.16	$ 0.15	-	$ 0.15	$ 0.16	$ 0.16

During the period ended October 31, 2011, the Company has stock-based compensation expense of $12 (October 31, 2010: $120), which has been recorded in the statement of comprehensive income and credited to contributed surplus. Of these amounts, an expense of $10 (2010 – $26) was reported as Cost of Sales – Mined ore, Management fees and wages included $2 (2010 – $64), Professional and consulting include $Nil (2010 - $26), Office and administration included $Nil (2010 - $2), and Shareholder relations included $Nil (2010 - $2).

No options were granted during the period ended October 31, 2011. The fair value of options granted during the year ended July 31, 2011 was estimated using the Black-Scholes option-pricing model with the following assumptions and other information at date of grant:

(in thousands of Canadian dollars unless otherwise stated)

13. Share Capital - (cont'd)

c) Share-based Payments – (cont'd)

Grant Date mm/dd/yy	05/06/11	10/06/10
Expiry Date mm/dd/yy	05/06/16	10/06/15
Spot price at grant	$0.125	$0.12
Exercise price	$0.15	$0.15
Dividend Rate	n/a	n/a
Risk free interest rate	2.34%	1.79%
Expected life	5 years	5 years
Expected annual volatility	82%	78%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

14. Financial Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Cash and short-term investments carried at their fair value. Based on a market price of LIBOR plus 6%, the fair value of the loan payable at October 31, 2011 was US$3,185 (July 31, 2011 - $3,290; August 1 - $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 October 31, 2011, the Company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos (MP):

	In '000 of CDN Dollars		In '000 of Mexican Pesos (MP)	
Cash	$	187	MP	46
Other working capital amounts - net	$	1,073	MP	(11,171)
Long-term liabilities	$	-	MP	37,541

At October 31, 2011, US dollar amounts were converted at a rate of $0.997 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP13.212 to $1 US Dollar. A 10% increase or decrease in the US dollar exchange may increase or decrease annual earnings from mining operations by approximately $1,300. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately $1,200.

(in thousands of Canadian dollars unless otherwise stated)

14. Financial Instruments – (cont'd)

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 October 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 $30.

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 October 31, 2011 is $915. Cash of $2 is held at a Mexican financial institution, the remainder of $913 is held at a chartered Canadian financial institution; the Company is exposed to the risks of those financial institutions. All trade receivables are owing from one customer and are receivable in US dollars.

The Company is also exposed to credit risk with respect to its short-term investments; the balance at October 31, 2011 is $1,050. All short-term investments are 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 October 31, 2011, the Company was holding cash of $915, short term investments of $1,050 and prepaid expenses and advances of $1,731.

Future obligations due at October 31,	2011	2012	2013	2014	2015 and beyond
Trade and other payables	$ 6,563	$ -	$ -	$ -	$ -
Note payable *	100	-	-	-	-
Loan payable *	2,535	-	-	-	-
Forward contract obligations	15,296	3,606	-	-	-
Reclamation and closure obligations	-	-	-	-	1,568
Other long-term liabilities	-	-	-	-	2,845

*Loan payable is shown as current (see note 1), however, payment schedule is currently to January 2013 as shown in note 10.

(in thousands of Canadian dollars unless otherwise stated)

14. Financial Instruments – (cont'd)

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 10). 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.

15. Commitments

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

Forward Sales Contracts

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 17,928 ounces to January 31, 2013, as at October 31, 2011 was negative US$18,965 (July 31, 2011 – US$19,235; August 1, 2010 - US$15,883) based on a gold value of US$1,708 per ounce (July 31, 2011 - US1,621; August 1, 2010 – US$1,180). Changes to the Company's forward contract obligations for the period ended October 31, 2011 and the year ended July 31, 2011are as follows:

	USD	CAD
Balance, August 1, 2010	$ (15,883)	$ (16,332)
Unrealised forward contract loss	(3,352)	(3,357)
Foreign exchange fluctuation	-	1,310
Balance, July 31, 2011	(19,235)	(18,379)
Unrealised forward contract gain (loss)	270	270
Foreign exchange fluctuation	-	(793)
Balance, October 31, 2011	(18,965)	(18,902)
Current portion, October 31, 2011	15,347	15,296
Long-term portion, October 31, 2011	**$ (3,618)**	**$ (3,606)**

(in thousands of Canadian dollars unless otherwise stated)

15. Commitments – (cont'd)

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

For the period ended October 31,	**2011**	2010
Net unrealised forward contract gain (loss)	$ 270	$ (4,211)
Realised forward contract loss	(3,371)	(1,891)
Net gain (loss) on forward contract obligations	**$ (3,101)**	$ (6,102)

Other Commitments

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

a) A term of the Loan (note 10) requires that the Company fund a Debt Service Reserve Account ("DSRA") at October 31, 2011, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at October 31, 2011, is approximately US$1,040 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 October 31, 2012 is $2,462 (see Note 10) and is in addition to the funding of the DSRA.

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

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

16. Segmented Information

During the period ended October 31, 2011, 100% of the Company's reportable sales were to two third parties. The balance owing from these customers on October 31, 2011 was $159 (July 31, 2011 - $172; August 1, 2010 - $Nil). The Company operates in two reportable geographical and one operating segment. Selected financial information by geographical segment is as follows:

	Mexico	**Canada**	**October 31, 2011 Total**
Revenue	$ 20,399	$ -	**$ 20,399**
Earnings (loss) for the period	3,508	(345)	**3,163**
Mining interest, plant and equipment	41,201	49	**41,250**
Total assets	56,548	1,658	**58,206**

(in thousands of Canadian dollars unless otherwise stated)

16. Segmented Information - (cont'd)

	Mexico	Canada	October 31, 2010 Total
Revenue	$ 6,450	$ -	$ 6,450
Earnings (loss) for the period	(2,965)	(433)	(3,398)

	Mexico	Canada	July 31, 2011 Total
Mining interest, plant and equipment	39,053	51	39,104
Total assets	51,501	1,904	53,405

17. Capital Disclosures

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

The Company considers the items included in the consolidated statements of shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements, except as disclosed in Note 2.

18. Earnings and Loss per Share

The Company follows the treasury stock method to calculate the basic and diluted loss per common share. Under this method, the basic loss per share is calculated using the weighted average number of common shares outstanding during each period and the diluted income (loss) per share assumes that the outstanding vested stock options and share purchase warrants had been exercised at the beginning of the year.

The denominator for the calculation of loss per share, being the weighted average number of common shares, is calculated as follows:

Three months ended	October 31, 2011	October 31, 2010
Issued common shares at August 1	105,808,970	82,690,789
September 20, 2011 Issuance	194,022	-
Basic weighted average number of common shares	106,002,992	82,690,789
Effect of dilutive securities – Warrants and options	41,565,995	-
Diluted weighted average number of common shares	147,568,987	82,690,789

19. Events After the Reporting Date

Subsequent to October 31, 2011, 11,582,500 shares were issued pursuant to the exercise of agent warrants and warrants at $0.15 per share for proceeds of $1,737. Subsequent to October 31, 2011, 500,000 options were exercised at $0.15 for proceeds of $75.

20. Comparative Figures

Certain comparative figures for the period ended October 31, 2010 and as at July 31, 2011 and August 1, 2010, have been reclassified to conform to the current year's financial statement presentation.

21. First Time Adoption of International Financial Reporting Standards

The Company's financial statements for the year ending July 31, 2012, are the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1, First time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was August 1, 2010 (the "Transition Date"). IFRS 1 requires first time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be July 31, 2012. However, it also provides certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to Transition to IFRS, the Company prepared its financial statements in accordance with Pre-changeover GAAP.

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Pre-changeover GAAP.

<u>Optional Exemptions</u>

The IFRS 1 applicable exemptions and exceptions applied in the conversion from Pre-changeover GAAP to IFRS are as follows:

Business Combinations

The Company elected to not retrospectively apply IFRS 3 Business Combinations to any business combinations, as no business combinations had occurred prior to its Transition Date.

Share-Based Payment Transactions

The Company has elected to not retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 only to all outstanding equity instruments that are unvested at the Transition Date.

Compound Financial Instruments

The Company has elected to not retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the Transition Date.

Changes in Existing Decommissioning, Restoration and Similar Liabilities

The Company has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As a result, the Company has re-measured the provisions at August 1, 2010 under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose.

Borrowing Costs

The Company has elected to not apply the transitional provisions of IAS 23 Borrowing Costs, which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

21. First Time Adoption of International Financial Reporting Standards – (cont'd)

Mandatory Exemptions

Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements of IAS 39 Financial Instruments: Recognition and Measurement, prospectively from the Transition Date. As a result, any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with Pre-changeover GAAP have not been reviewed for compliance with IAS 39.

Estimates

The estimates previously made by the Company under Pre-changeover GAAP were not revised for the application of IFRS except where necessary to reflect any differences in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to reverse estimates.

Reconciliation of Pre-Changeover GAAP Equity and Comprehensive Loss to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position as shown below have resulted in reclassifications of various amounts on statements of comprehensive income and the statement of cash flows, however as there have been no material adjustments to the earnings from operations or net cash flows, no reconciliation of the statements of comprehensive income and statement of cash flows has been prepared.

i) Foreign Denominated Warrants

In conjunction with the Loan, the Company issued 19,236,000 detachable share purchase warrants which were exercisable in USD to the extent that the Loan was still outstanding and thereafter in CAD.

Under Pre-changeover GAAP, the Loan discount was determined as being the difference between the face value of the original Loan, US$13,000 or $15,301 less the portion of the loan classified as a liability, US$12,059 or $13,867. Using the effective interest rate method and the 11.0% implicit in the calculation, the difference of $1,108, was characterized as the note discount which was charged to the consolidated statements of comprehensive income (loss) and added to the liability over the term of the Loan or as the Loan is repaid. The $1,108 discount was allocated to contributed surplus as being the value assigned to the warrants.

Under IFRS, share purchase warrants issued with exercise prices denominated in foreign currencies are classified and presented as derivative liabilities and measured at fair value. The fair value of the warrants calculated under IFRS was, $2,953 using the Black-Scholes method of valuation (Note 10). Subsequent to initial recognition, the fair value of the warrants would have been recalculated with any fluctuations being included in the Company's profit or loss.

As of July 31, 2011 and August 1, 2010, the fair value of the foreign denominated warrants was $Nil. In the conversion from Pre-changeover GAAP to IFRS, contributed surplus was reduced by $1,108 and accumulated deficit was increased for the full amount due to the current fair value of the warrants being $Nil. The Loan balance, shown net of the discount is reduced $589 at August 1, 2010 and $452, at July 31, 2011 for the increase in the discount as discussed above.

21. First Time Adoption of International Financial Reporting Standards – (cont'd)

Reconciliation of Pre-Changeover GAAP Equity and Comprehensive Loss to IFRS – (cont'd)

ii) Deferred Income Taxes

Under Pre-changeover GAAP, current and non-current future income tax assets and liabilities were grouped to the extent that they would be applicable against one another as they were realized. IFRS requires current and non-current deferred tax items to be presented separately and similarly, requires the segregation of deferred tax assets and liabilities.

(in thousands of Canadian dollars unless otherwise stated)

21. First Time Adoption of International Financial Reporting Standards – (cont'd)

Reconciliation of Statement of Financial Position as at August 1, 2010 – Transition Date

	Note	August 1, 2010 Pre-Changeover	Effect of Transition to IFRS	August 1, 2010 IFRS
Assets				
Current				
Cash		$ 824		$ 824
Short-term investments		761		761
Amounts receivable		1,150		1,150
Inventory		1,065		1,065
Prepaid expenses and advances		832		832
Deferred tax asset - current	*(ii)*	-	2,496	2,496
Total Current Assets		4,632		7,128
Non-Current				
Mining interest, plant and equipment		40,538		40,538
Deferred tax asset – non-current	*(ii)*	-	5,216	5,216
Total Non-Current Assets		40,538		45,754
Total Assets		$ 45,170		$ 52,882
Liabilities				
Current				
Trade and other payables		$ 3,300		$ 3,300
Note payable		-		-
Current portion of loan payable	*(i)*	4,526	(589)	3,937
Current portion of forward contract obligations		6,228		6,228
Deferred tax liability - current	*(ii)*	-	549	549
Total Current Liabilities		14,054		14,014
Non-Current				
Loan payable		-		-
Forward contract obligations		10,104		10,104
Rehabilitation and closure cost provision		1,275		1,275
Deferred tax liability – non-current	*(ii)*	3,230	7,163	10,393
Other long-term liabilities		2,633		2,633
Total Non-Current Liabilities		17,242		24,405
Total Liabilities		31,296		38,419
Shareholders' Equity				
Share capital		34,909		34,909
Contributed surplus	*(i)*	10,656	(1,108)	9,548
Translation reserve	*(i)*	(2,970)	(201)	(3,171)
Accumulated deficit	*(i)*	(28,721)	1,898	(26,823)
Total Shareholders' Equity		13,874		14,463
Total Liabilities and Shareholders' Equity		$ 45,170		$ 52,882

(in thousands of Canadian dollars unless otherwise stated)

21. First Time Adoption of International Financial Reporting Standards – (cont'd)

Reconciliation of Statement of Financial Position as at October 31, 2010 – Transition Date

	Note	October 31, 2010 Pre-Changeover	Effect of Transition to IFRS	October 31, 2010 IFRS
Assets				
Current				
Cash		$ 342		$ 342
Short-term investments		461		461
Amounts receivable		1,322		1,322
Inventory		1,091		1,091
Prepaid expenses and advances		1,198		1,198
Deferred tax asset - current	*(ii)*	-	2,194	2,194
Total Current Assets		4,414		6,608
Non-Current				
Mining interest, plant and equipment		42,267		42,267
Deferred tax asset – non-current	*(ii)*	-	4,029	4,029
Total Non-Current Assets		42,267		46,296
Total Assets		$ 46,681		$ 52,904
Liabilities				
Current				
Trade and other payables		$ 3,370		$ 3,370
Note payable		200		200
Current portion of loan payable	*(i)*	4,405	(573)	3,832
Current portion of forward contract obligations		9,276		9,276
Deferred tax liability - current	*(ii)*	-	482	482
Total Current Liabilities		17,251		17,160
Non-Current				
Loan payable		-		-
Forward contract obligations		12,019		12,019
Rehabilitation and closure cost provision		1,355		1,355
Deferred tax liability – non-current	*(ii)*	2,018	5,741	7,759
Other long-term liabilities		2,748		2,748
Total Non-Current Liabilities		18,140		23,881
Total Liabilities		35,391		41,041
Shareholders' Equity				
Share capital		34,909		34,909
Contributed surplus	*(i)*	10,776	(1,108)	9,668
Translation reserve	*(i)*	(2,313)	(180)	(2,493)
Accumulated deficit	*(i)*	(32,082)	1,861	(30,221)
Total Shareholders' Equity		11,290		11,863
Total Liabilities and Shareholders' Equity		$ 46,681		$ 52,904

(in thousands of Canadian dollars unless otherwise stated)

21. First Time Adoption of International Financial Reporting Standards – (cont'd)

Reconciliation of Statement of Financial Position as at July 31, 2011 – Transition Date

	Note	July 31, 2011 Pre-Changeover	Effect of Transition to IFRS	July 31, 2011 IFRS
Assets				
Current				
Cash		$ 712		$ 712
Short-term investments		1,250		1,250
Amounts receivable		1,779		1,779
Inventory		2,199		2,199
Prepaid expenses and advances		1,593		1,593
Deferred tax asset - current	*(ii)*	-	3,404	3,404
Total Current Assets		7,533		10,937
Non-Current				
Mining interest, plant and equipment		39,104		39,104
Deferred tax asset – non-current	*(ii)*	-	3,364	3,364
Total Non-Current Assets		39,104		42,468
Total Assets		$ 46,637		$ 53,405
Liabilities				
Current				
Trade and other payables		$ 6,372		$ 6,372
Note payable		100		100
Current portion of loan payable	*(i)*	3,111	(452)	2,659
Current portion of forward contract obligations		11,137		11,137
Deferred tax liability - current	*(ii)*	-	439	439
Total Current Liabilities		20,720		20,707
Non-Current				
Loan payable		-		-
Forward contract obligations		7,242		7,242
Rehabilitation and closure cost provision		1,473		1,473
Deferred tax liability – non-current	*(ii)*	2,456	6,329	8,785
Other long-term liabilities		2,632		2,632
Total Non-Current Liabilities		13,803		20,132
Total Liabilities		34,523		40,839
Shareholders' Equity				
Share capital		36,750		36,750
Contributed surplus	*(i)*	11,348	(1,108)	10,240
Translation reserve	*(i)*	(3,240)	(184)	(3,424)
Accumulated deficit	*(i)*	(32,744)	1,744	(31,000)
Total Shareholders' Equity		12,114		12,566
Total Liabilities and Shareholders' Equity		$ 46,637		$ 53,405