Starcore International Mines Ltd.

Consolidated Financial Statements

For the year ended July 31, 2013

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Independent Auditor's Report

To the Shareholders of
Starcore International Mines Ltd.

We have audited the accompanying consolidated financial statements of Starcore International Mines Ltd., which comprise the consolidated statements of financial position as at July 31, 2013, July 31, 2012, and August 1, 2011 and the consolidated statements of operations and comprehensive income, changes in equity and cash flows for the years ended July 31, 2013 and July 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Starcore International Mines Ltd. as at July 31, 2013, July 31, 2012, and August 1, 2011 and its financial performance and its cash flows for the years ended July 31, 2013 and July 31, 2012 in accordance with International Financial Reporting Standards.

(Signed) Deloitte LLP

Chartered Accountants
October 28, 2013
Vancouver, Canada

Starcore International Mines Ltd.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at		July 31, 2013		July 31, 2012 (Note 11)		August 1, 2011 (Note 11)
Assets						
Current						
Cash	$	**5,638**	$	1,675	$	712
Short-term investments (note 5)		**2,710**		1,612		1,250
Amounts receivable (notes 6 and 13)		**1,979**		3,518		1,779
Inventory (note 7)		**1,689**		2,432		2,199
Prepaid expenses and advances		**2,425**		2,585		1,593
Total Current Assets		**14,441**		11,822		7,533
Non-Current						
Mining interest, plant and equipment (note 8)		**42,078**		43,060		39,104
Deferred tax assets (note 18)		**3,018**		1,309		6,768
Total Non-Current Assets		**45,096**		44,369		45,872
Total Assets	$	**59,537**	$	56,191	$	53,405
Liabilities						
Current						
Trade and other payables	$	**1,936**	$	1,684	$	6,472
Loan payable (note 9)		**3,479**		7,698		2,659
Current portion of forward contract obligation		**-**		-		11,137
Total Current Liabilities		**5,415**		9,382		20,268
Non-Current						
Forward contract obligation		**-**		-		7,242
Rehabilitation and closure cost provision (note 10)		**1,053**		1,505		1,473
Deferred tax liabilities (note 18)		**10,420**		8,866		9,224
Other long-term liabilities (note 11)		**424**		500		408
Total Non-Current Liabilities		**11,897**		10,871		18,347
Total Liabilities	$	**17,312**	$	20,253	$	38,615

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

Starcore International Mines Ltd.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at		**July 31, 2013**		July 31, 2012 (Note 11)		August 1, 2011 (Note 11)
Equity						
Share capital (note 12)	**$**	**43,752**	$	43,053	$	36,750
Equity reserve		**10,754**		10,620		10,240
Foreign currency translation reserve		**(2,542)**		(3,294)		(3,424)
Accumulated deficit (note 11)		**(9,739)**		(14,441)		(28,776)
Total Equity		**42,225**		35,938		14,790
Total Liabilities and Equity	**$**	**59,537**	$	56,191	$	53,405

Commitments (notes 12 and 14)
Subsequent event (note 9)

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

For the years ended July 31,		2013		2012
Revenues				
Mined ore	**$**	**30,246**	$	38,524
Purchased concentrate		**-**		18,515
Total Revenues		**30,246**		57,039
Cost of Sales (note 7)				
Mined ore		**21,948**		17,530
Purchased concentrate		**-**		17,819
Total Cost of Sales		**(21,948)**		(35,349)
Earnings from mining operations		**8,298**		21,690
Financing costs (net) (note 9)		**(1,141)**		(1,304)
Foreign exchange gain (loss)		**(306)**		681
Professional and consulting fees		**(399)**		(711)
Management fees and salaries (notes 12 and 14)		**(1,047)**		(1,075)
Office and administration		**(1,016)**		(1,097)
Shareholder relations		**(223)**		(348)
Write-down for obsolete equipment		**(113)**		-
Earnings before taxes		**4,053**		17,836
Income tax recovery (expense) (note 18)		**649**		(3,501)
Earnings for the year		**4,702**		14,335
Other comprehensive loss				
Foreign currency translation differences		**752**		130
Comprehensive income for the year	**$**	**5,454**	$	14,465
Basic earnings per share (note 17)	**$**	**0.03**	$	0.11
Diluted earnings per share (note 17)	**$**	**0.03**	$	0.10

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

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

For the years ended July 31,		**2013**		2012
Cash provided by				
Operating activities				
Earnings for the year	**$**	**4,702**	$	14,335
Items not involving cash:				
Depreciation and depletion		**5,002**		4,480
Share-based compensation (note 12)		**261**		560
Interest revenue		**(8)**		(24)
Interest on long-term debt (note 9)		**543**		324
Unwinding of discount on long-term debt (note 9)		**523**		869
Employee profit sharing provision (note 11)		**(97)**		(39)
Rehabilitation and closure cost accretion (note 10)		**77**		148
Write-down for obsolete equipment		**113**		-
Net gain on forward contracts		**-**		(106)
Income tax (recovery) expense (note18)		**(649)**		3,501
Change in non-cash working capital items				
Prepaid expenses and advances		**1,151**		(918)
Amounts receivable		**1,595**		(1,660)
Inventory		**788**		(125)
Trade and other payables		**(17)**		(5,033)
Taxes paid		**-**		1,490
Cash provided by operating activities		**13,984**		17,802
Financing activities				
Share issuances		**497**		5,850
Share issuance costs		**-**		(87)
Advance of loan payable		**-**		11,000
Repayment of loan payable		**(4,667)**		(5,941)
Interest paid		**(543)**		(324)
Financing costs		**-**		(376)
Realized forward contract settlements		**-**		(19,185)
Cash outflows for financing activities		**(4,713)**		(9,063)
Investing activities				
Purchase of short-term investments		**(2,700)**		(4,100)
Sale of short-term investments		**1,600**		3,750
Interest received		**10**		12
Investment in subsidiary		**-**		(100)
Purchase of mining interest, plant and equipment		**(3,828)**		(6,372)
Cash outflows for investing activities		**(4,918)**		(6,810)
Total increase in cash		**4,353**		1,929
Effect of foreign exchange rate changes on cash		**(390)**		(966)
Cash, beginning of year		**1,675**		712
Cash, end of year	**$**	**5,638**	$	1,675

Non-cash transactions - note 12

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

Starcore International Mines Ltd.

Consolidated Statements of Changes in Equity for the years ended July 31, 2013 and 2012
(in thousands of Canadian dollars, except for number of shares)

		Number of Shares Outstanding	Share Capital	Equity Reserve	Foreign Currency Translation Reserve	Accumulated Deficit (Note 11)	Total
Balance, August 1, 2011		105,808,970	$ 36,750	$ 10,240	$ (3,424)	$ (28,776)	$ 14,790
Issued for cash pursuant to:							
Private placement of units	- at $0.25	9,010,000	1,890	363	-	-	2,253
Exercise of warrants	- at $0.15	18,534,771	3,143	(363)	-	-	2,780
Exercise of agent warrants	- at $0.15	3,892,910	677	(93)	-	-	584
Exercise of options	- at $0.15	1,550,000	345	(112)	-	-	233
Issued as a bonus on financing	- at $0.36	1,000,000	360	-	-	-	360
Share issue costs: Cash		-	(73)	(14)	-	-	(87)
Warrants		-	(39)	39	-	-	-
Share-based compensation		-	-	560	-	-	560
Foreign currency translation		-	-	-	130	-	130
Earnings for the year		-	-	-	-	14,335	14,335
Balance, July 31, 2012		139,796,651	43,053	10,620	(3,294)	(14,441)	35,938
Issued as a bonus on financing	- at $0.25	300,000	75	-	-	-	75
Issued for cash pursuant to:							
Exercise of warrants	- at $0.15	3,261,814	613	(124)	-	-	489
Exercise of agent warrants	- at $0.25	32,000	11	(3)	-	-	8
Share-based compensation		-	-	261	-	-	261
Foreign currency translation		-	-	-	752	-	752
Earnings for the year		-	-	-	-	4,702	4,702
Balance, July 31, 2013		**143,390,465**	**$ 43,752**	**$ 10,754**	**$ (2,542)**	**$ (9,739)**	**$ 42,225**

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 $28.2 million 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 is a self sustaining mining operation in Mexico. Bernal is the Company's sole source of operating cash flows.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements for the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the Board of Directors on October 28, 2013.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except certain financial instruments, which are measured at fair value, as explained in the Company's accounting policies discussed in Note 3.

The 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 dollars, unless otherwise indicated.

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

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, which 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, Compañia Minera Peña de Bernal, S.A. de C.V. (Mexico), SAM Servicios Administrativos Mineros, S.A. de C.V. (Mexico), Eucan Minas, S.A. de C.V, Norma Mines Limited, and Minas Vallarta Resources Ltd. carry out their operations in Mexico and 1794598 Ontario Inc. (Canada) operates in Canada.

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 were applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Translation

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 Statement of Operations and Comprehensive Income 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 with functional currencies differing from the presentation currency, 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 with functional currencies differing from the presentation currency are translated into Canadian dollars at the year-to-date average exchange rates.

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. At July 31, 2013 and 2012, the Company had no cash equivalents.

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 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 year are presented in the Company's profit and loss.

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 the consolidated statement of 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 measured reliably. All other repairs and maintenance are charged to the Company's profit or loss during the financial year 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 statement of financial position.

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, plant, 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 Statement of Operations and Comprehensive Income. 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 Statement of Operations and Comprehensive Income. Rehabilitation and closure cost obligations related to inactive mines are included in production costs in the Consolidated Statement of Operations and Comprehensive Income 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.

Any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

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, short-term investments and amounts receivable 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 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/ income. 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.

The Company has no derivative instruments as at July 31, 2013 and 2012.

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

j) Income Taxes

Current tax and deferred taxes 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 equity reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in equity reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, 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.

Where vesting conditions are not satisfied and options are forfeited, the Company reverses the fair value amount of the unvested options which had been recognized over the vesting period.

(in thousands of Canadian dollars unless otherwise stated)

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

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, 2013 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.

The Company is currently reviewing the following new standards, amendments and interpretations, which have not been early adopted in these consolidated 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 previous joint venture standard IAS 31)
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, comprehensive standard for fair value measurement and disclosure)
IAS 27	Consolidated and Separate Financial Statements (Amended in 2011)
IAS 28	Investments in Associates and Joint Ventures (Amended in 2011)

4. Critical Accounting Estimates and Judgments

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 consolidated 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 Judgments – (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.

The inflation rate applied to estimated future rehabilitation and closure costs is 3.5% and the discount rate currently applied in the calculation of the net present value of the provision is 8%.

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, expected forfeiture rate, 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 12.

(in thousands of Canadian dollars unless otherwise stated)

5. Short-term Investments

At July 31, 2013, the Company held a Guaranteed Investment Certificate ("GIC") with a market value of $2,710, earning interest income at prime minus 1.65% per annum and maturing as to 50% on March 18, 2014 and 50% on May 24. 2014. At July 31, 2012, the Company held a GIC with a market value of $1,612, earning interest income at prime minus 1.8% per annum and matured on February 4, 2013. This GIC is cashable at the Company's option and is considered to be highly liquid.

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

July 31,	**2013**	2012
Taxes receivable	**$ 1,741**	$ 3,330
Trade receivables	**150**	141
Other	**88**	47
	$ 1,979	$ 3,518

7. Inventory

July 31,	**2013**	2012
Carrying value of inventory:		
Doré	**$ 717**	$ 1,585
Work-in-process	**139**	160
Stockpile	**127**	-
Supplies	**706**	687
	$ 1,689	$ 2,432

For the year ended July 31,	**2013**	2012
Inventory included in cost of sales:		
Mined ore	**$ 16,955**	$ 13,745
Purchased concentrate	**-**	17,151
	$ 16,955	$ 30,896

(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, July 31, 2011	$	39,789	$	8,424	$	232	$	48,445
Additions		4,235		2,126		11		6,372
Effect of foreign exchange		1,954		406		-		2,360
Balance, July 31, 2012		45,978		10,956		243		57,177
Additions		2,819		927		82		3,828
Write-down of equipment		-		(246)		-		(246)
Change in ARO assumptions		(586)		-		-		(586)
Effect of foreign exchange		1,147		48		-		1,195
Balance, July 31, 2013	**$**	**49,358**	**$**	**11,685**	**$**	**325**	**$**	**61,368**
Depreciation								
Balance, July 31, 2011	$	6,182	$	2,978	$	181	$	9,341
Depreciation for the year		3,825		628		27		4,480
Effect of foreign exchange		153		143		-		296
Balance, July 31, 2012		10,160		3,749		208		14,117
Depreciation for the year		4,144		827		31		5,002
Write-down of equipment		-		(133)		-		(133)
Effect of foreign exchange		330		(26)		-		304
Balance, July 31, 2013	**$**	**14,634**	**$**	**4,417**	**$**	**239**	**$**	**19,290**
Carrying amounts								
Balance, July 31, 2012	$	35,818	$	7,207	$	35	$	43,060
Balance, July 31, 2013	**$**	**34,724**	**$**	**7,268**	**$**	**86**	**$**	**42,078**

9. Loan Payable

During the year ended July 31, 2012, the Company secured an $11 million credit facility (the “Facility”) with Sprott Resource Lending. The facility was used to settle the hedge liability originally entered into with Investec Bank PLC (“Investec”) pursuant to a Loan Facility entered into on purchase of the mine in 2007. The Facility bears interest at 11% per annum, payable monthly, with monthly principal payments of $917 to be made commencing May 31, 2012, with the final payment subject to the amended terms discussed below. The Facility may be repaid in full without penalty.

In consideration for the Facility, the Company paid structuring fees, finder’s fees and legal fees of $376 and issued 1,000,000 common shares. The fair value of the shares has been determined to be equal to the market price on the date of grant, being $0.36 per share or $360. The Facility is guaranteed by the Company's wholly owned subsidiary, Bernal, and is secured by a fixed and floating charge and specific registration over all of the assets of the Company and Bernal, including the San Martin gold and silver mine in Queretaro, Mexico, and a pledge of all of the shares of Bernal held by the Company.

(in thousands of Canadian dollars unless otherwise stated)

9. Loan Payable – (cont'd)

The Facility has been classified as an other financial liability at amortized cost of $11,000, less the fair value of the shares, structuring, finder's and legal fees, totaling $736 (the "Discount"). As a result, the recorded liability to repay the Facility was lower than its face value.

On December 19, 2012, the Company amended the Facility and as a result was not required to make principal payments until October 31, 2013. The amended terms of the outstanding credit facility allow the Company the flexibility to make one balloon payment by October 31, 2013. Consideration paid for the amendment was the issuance of 300,000 shares with a market value of $0.25 per share totaling $75. The fair value of these shares has been added to the Discount of the Facility and the total remaining facility will be charged to the Company's profit and loss as described below.

The Discount is being charged to the Company's profit and loss and added to the liability over the life of the Facility. During the year ended July 31, 2013, the Company made payments totaling $5,242 (2012: $2,999), consisting of $4,667 in repayment of principal (2012: $2,750) and $543 of interest (2012: $249). Over the period, $523 of the discount was recognized as a financing cost in the Company's total earnings.

	Principal	Discount	Total
Balance, July 31, 2011	$ -	$ -	$ -
Financing, May 17, 2012	11,000	(736)	10,264
Payments made during the year	(2,750)	-	(2,750)
Unwinding of discount	-	184	184
Balance, July 31, 2012	8,250	(552)	7,698
Amendment, December 19, 2012	-	(75)	(75)
Payments made during the year	(4,667)	-	(4,667)
Unwinding of discount	-	523	523
Balance, July 31, 2013	**$ 3,583**	**$ (104)**	**$ 3,479**

Subsequent to the year ended July 31, 2013, on August 30, 2013, the Company paid the remaining $3,583 of the Facility, settling its obligation in full. As a result, the net discount was realized subsequent to July 31, 2013.

(in thousands of Canadian dollars unless otherwise stated)

9. Loan Payable – (cont'd)

The Company's financing costs for the year ended July 31, 2013 and 2012 as reported on its Consolidated Statement of Operations and Comprehensive Income can be summarized as follows:

For the year ended July 31,	**2013**	2012
Unwinding of discount on rehabilitation and closure accretion (Note 10)	**$ 77**	$ 148
Investec Loan unwinding of discount	**-**	685
Investec Loan interest expense	**-**	145
Investec Loan financing cost	**-**	23
Facility discount unwinding	**523**	184
Facility interest expense	**543**	249
Interest revenue	**(2)**	(24)
Net loss on forward contract obligations	**-**	(106)
	$ 1,141	$ 1,304

10. Rehabilitation and Closure Cost Provision

The Company's asset retirement obligations consist of reclamation and closure costs for the mine. At July 31, 2013, the present value of obligations is estimated at $1,053 (2012 - $1,505) based on expected undiscounted cash-flows at the end of the mine life of 21,282,000 Mexican pesos ("MP") or $1,705 (2012 - $2,858), which is calculated annually over 6 to 11 years. Such liability was determined using a discount rate of 8% (2012 – 11%), an inflation rate of 3.5% (2012 – 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 year are as follows:

	July 31, 2013	July 31, 2012
Balance, beginning of year	**$ 1,505**	$ 1,473
Accretion expense	**77**	148
Revision to assumptions and estimates	**(586)**	-
Foreign exchange fluctuation	**57**	(116)
	$ 1,053	$ 1,505

11. Other Long – Term Liabilities

Under Mexican tax laws, the Company's Mexican subsidiary is required to remit 10% of taxable income to employees as statutory profit-sharing. The provision for profit-sharing is based on accounting income and the amounts are payable based on the Company's Mexican subsidiary earning taxable income. Management has accrued amounts which may be payable based on prior years that have not been settled or are in dispute, However, the Company had previously recognized a liability of $2,224 for future employee profit sharing amounts that do not meet the criteria for recognition under IFRS. As a result, these consolidated financial statements have been restated to give effect to the derecognition of this liability with the following impacts:

(in thousands of Canadian dollars unless otherwise stated)

11. Other Long – Term Liabilities - (cont'd)

As at and for the years ended:

July 31, 2012	Previously reported	Adjustment	As restated
Other long-term liabilities	**$ 2,724**	$ (2,224)	$ 500
Total liabilities	**22,477**	(2,224)	20,253
Accumulated deficit (including net income impact for the year)	**(16,665)**	2,224	(14,441)
Total equity	**33,714**	2,224	35,938

August 1, 2011	Previously reported	Adjustment	As restated
Other long-term liabilities	**$ 2,632**	$ (2,224)	$ 408
Total liabilities	**40,839**	(2,224)	38,615
Accumulated deficit	**(31,000)**	2,224	(28,776)
Total equity	**12,566**	2,224	14,790

12. 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 may be 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.

During the year ended July 31, 2013, the Company issued:
- 300,000 shares pursuant to the amendment of the Facility agreement at $0.25 per share or $75 (Note 9);
- 3,261,814 shares pursuant to the exercise of share purchase warrants at $0.15 per share for proceeds of $489. The fair value of the warrants as determined on the date of issuance, being $124, was transferred to the Company's share capital from equity reserve on exercise;
- 32,000 shares pursuant to the exercise of share purchase agent warrants at $0.25 per share for proceeds of $8. The fair value of the warrants as determined on the date of issuance, being $3, was transferred to the Company's share capital from equity reserve on exercise.

During the year ended July 31, 2012, the Company issued:
- 1,000,000 shares pursuant to the $11,000 credit facility (Note 9). The fair value of the shares has been determined to be equal to the market price on the date of grant, being $0.36 per share or $360;
- 18,534,771 shares pursuant to the exercise of share purchase warrants at $0.15 per share for proceeds of $2,780. The fair value of the warrants as determined on the date of issuance, being $363, was transferred to the Company's share capital from equity reserve on exercise;

12. Share Capital - (cont'd)

a) Common Shares – (cont'd)

- 3,892,910 shares pursuant to the exercise of agent warrants at $0.15 per share for proceeds of $584. The fair value of the warrants as determined on the date of issuance, being $93, was transferred to the Company's share capital from equity reserve on exercise; and
- 1,550,000 shares pursuant to the exercise of share purchase options at $0.15 per share for proceeds of $233. The fair value of the warrants as determined on the date of issuance, being $112, was transferred to the Company's share capital from equity reserve on exercise.

On January 30, 2012, the Company completed a non-brokered financing for the issuance of 9,010,000 Units at $0.25 per Unit for proceeds of $2,253. Each Unit consisted of one share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional share of the Company at $0.35 until January 30, 2014. The $2,253 proceeds of the financing were allocated to the shares and warrants, pro rata, using the market value of the shares on the date of issuance and the fair value of the warrants. As a result, share capital increased by $1,890 and equity reserve increased by $363.

The fair value of the warrants was determined using the Black-Scholes model using an expected annual volatility of 84% over a 2 year expected life and a risk free interest rate of 0.95%.

Agents' fees applied in this transaction were in the form of a cash commission of $87 and 464,800 nontransferable Agent Warrants entitling the holder to acquire one common share of the Company at a price of $0.25 to January 30, 2013. Cash commissions were allocated $73 to share capital and $14 to warrants. Share issue costs include $39 allocated to the fair value of Agents' Warrants issued and $7 has been allocated to Warrants.

b) Warrants

No warrants were issued during the year ended July 31, 2013.

Pursuant to the January 30, 2012 financing during the year ended July 31, 2012, the Company issued 4,505,000 warrants, each warrant entitling the holder to acquire one common share of the Company at $0.35 until January 30, 2014. The Company also issued 464,800 warrants to agents, exercisable at $0.25 until January 30, 2013.

(in thousands of Canadian dollars unless otherwise stated)

12. Share Capital - (cont'd)

b) Warrants – (cont'd)

A summary of the Company's outstanding share purchase warrants at July 31, 2013 and 2012 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price	Equity reserve Amount
Outstanding at July 31, 2011	32,830,995	$ 0.30	$ 1,016
Warrants issued for private placement	4,505,000	0.35	363
Cash paid to agents allocated to warrants	-	-	(14)
Warrants issued to agents	464,800	0.25	39
Warrants exercised	(18,534,771)	0.15	(363)
Agent Warrants exercised	(3,892,910)	0.15	(93)
Warrants expired	(347,500)	0.15	-
US Denominated warrants expired	(6,794,000)	0.76	-
Outstanding at July 31, 2012	8,231,614	0.27	948
Warrants exercised	(3,261,814)	0.15	(124)
Agent Warrants exercised	(32,000)	0.25	(3)
Agent Warrants expired	(432,800)	0.25	-
Outstanding at July 31, 2013	**4,505,000**	**$ 0.35**	**$ 821**

At July 31, 2013, there were 4,505,000 warrants exercisable to purchase one common share for each warrant held as follows:

Number of Shares	Exercise Price	Expiry Date
4,505,000	$0.35	January 30, 2014

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; and
(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)

12. Share Capital - (cont'd)

c) Share-based Payments – (cont'd)

The following is a summary of changes in options from July 31, 2012 to July 31, 2013:

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	6,000,000	-	-	-	**6,000,000**	**6,000,000**
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**
05/06/11	05/06/16	$0.15	210,000	-	-	(20,000)	**190,000**	**190,000**
01/16/12	01/16/17	$0.20	450,000	-	-	(50,000)	**400,000**	**400,000**
01/27/12	01/27/17	$0.25	1,995,000	-	-	(55,000)	**1,940,000**	**1,940,000**
04/13/12	04/13/17	$0.37	3,250,000	-	-	-	**3,250,000**	**2,166,664**
			13,305,000	-	-	(125,000)	**13,180,000**	**12,096,664**
Weighted Average Exercise Price			$0.22			$0.21	**$0.23**	**$0.21**

The following is a summary of changes in options from July 31, 2011 to July 31, 2012:

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	-	(800,000)	(250,000)	6,000,000	6,000,000
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)	-	-	-
05/06/11	05/06/16	$0.15	210,000	-	-	-	210,000	139,996
01/16/12	01/16/17	$0.20	-	700,000	-	(250,000)	450,000	149,998
01/27/12	01/27/17	$0.25	-	2,160,000	-	(165,000)	1,995,000	664,991
04/13/12	04/13/17	$0.37	-	3,250,000	-	-	3,250,000	-
			9,410,000	6,110,000	(1,550,000)	(665,000)	13,305,000	8,354,985
Weighted Average Exercise Price			$0.16	$0.31	$0.15	$0.19	$0.22	$0.17

During the year ended July 31, 2013, the Company has share-based compensation expense of $261 (2012: $560), which has been recorded in the statement of comprehensive income and credited to equity reserve. These amounts have been expensed as follows:

For the year ended July 31,	**2013**	2012
Cost of Sales – Mined ore	**$ 42**	$ 98
Professional and consulting fees	**-**	2
Management fees and salaries	**221**	418
Office and administration	**(1)**	35
Shareholder relations	**(1)**	7
	$ 261	$ 560

(in thousands of Canadian dollars unless otherwise stated)

13. Financial Instruments

All significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the consolidated 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 are carried at their fair value. 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 July 31, 2013, 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	$	1,845	MP	1,278
Other working capital amounts - net	$	2,795	MP	(4,938)
Long-term liabilities	$	3,563	MP	33,697

At July 31, 2013, US dollar amounts were converted at a rate of $1.027 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP12.83 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 $900. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately $800.

Interest Rate Risk

The Company's cash earns 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, future cash flows will be affected by interest rate fluctuations. The Company is not significantly exposed to interest rate fluctuations and 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.

(in thousands of Canadian dollars unless otherwise stated)

13. Financial Instruments – (cont'd)

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 and short-term investment, the balance of which at July 31, 2013 is $5,638 and $2,710, respectively. Cash of $102 is held at a Mexican financial institution, the remainder of $5,536 and the short-term investment of $2,710 are held at a chartered Canadian financial institution; the Company is exposed to the risks of those financial institutions. All trade receivables are owing from two customers and are receivable in US dollars.

Liquidity Risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company accomplishes this by achieving profitable operations and maintaining sufficient cash reserves. As at July 31, 2013, the Company was holding cash of $5,638 and short-term investments of $2,710.

Obligations due within twelve months of July 31,	2013	2014	2015	2016	2017 and beyond
Trade and other payables	$ 1,936	$ -	$ -	$ -	$ -
Loan payable	3,479	-	-	-	-
Reclamation and closure obligations	-	-	-	-	1,705
Other long-term liabilities	-	-	-	-	424

The Company's trade and other payables and current portion of its Loan Facility obligations are due in the short term. Long-term obligations include the Company's reclamation and closure cost obligations, other long-term liabilities and deferred 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 Facility (see note 9). The Company continues to make all debt and interest payments as required under the Loan Facility. 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.

14. Commitments

Except as disclosed elsewhere in these consolidated financial statements, the Company has the following commitments outstanding at July 31, 2013:

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

b) As at July 31, 2013, the Company has management contracts to officers and directors totaling $600 per year, payable monthly, expiring in January 2017.

c) As at July 31, 2013, the Company has a land lease agreement commitments with respect to the land at the mine site, for $96 per year until June 2016.

(in thousands of Canadian dollars unless otherwise stated)

14. Commitments – (cont'd)

During the years ended July 31, 2013 and 2012, the Company paid the following amounts to key management and directors:

For the year ended July 31,	**2013**	2012
Management fees	**$ 600**	$ 599
Legal fees	**15**	28
Directors fees	**96**	34
Technical advisory committee	**9**	-
Share-based payments	**143**	160
Total	**$ 863**	$ 821

15. Segmented Information

During the year ended July 31, 2013, 100% of the Company's reportable sales were to two third parties. The balance owing from this customer on July 31, 2013 was $150 (July 31, 2012 - $141). The Company operates in two reportable geographical and one operating segment. Selected financial information by geographical segment is as follows:

	Mexico	**Canada**	**July 31, 2013 Total**
Revenue	$ 30,246	$ -	**$ 30,246**
Earnings (loss) for the year	7,442	(2,740)	**4,702**
Mining interest, plant and equipment	41,992	86	**42,078**
Total assets	55,241	4,296	**59,537**

	Mexico	**Canada**	**July 31, 2012 Total**
Revenue	$ 57,039	$ -	$ 57,039
Earnings (loss) for the year	17,592	(3,257)	14,335
Mining interest, plant and equipment	43,025	35	43,060
Total assets	53,756	2,435	56,191

16. Capital Disclosures

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

The Company considers the items included in the consolidated statements of changes in 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 for loan covenants outlined in Note 13 for which the Company is compliant.

(in thousands of Canadian dollars unless otherwise stated)

17. Earnings per Share

The Company calculates the basic and diluted income (loss) per common share 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:

For the year ended July 31,	**2013**	2012
Issued common share, beginning of period	**139,796,651**	105,808,970
Weighted average issuances	**1,472,976**	19,097,470
Basic weighted average common shares	**141,269,627**	124,906,440
Effect of dilutive warrants and options	**6,590,000**	16,586,599
Diluted weighted average common shares	**147,859,627**	141,493,039

Vested share purchase options and warrants totalling 10,011,664 in aggregate and unvested share purchase options outstanding of 1,083,336, at July 31, 2013, were not included in the computation of diluted earnings per share.

18. Income Taxes

Current income tax expense differs from the amount that would result from applying the Canadian statutory income tax rates to the Company's loss before income taxes. This difference is reconciled as follows:

Year ended July 31,		**2013**		2012
Earnings (loss) before income taxes	**$**	**4,053**	$	17,836
Canadian statutory income tax rate		**25.33%**		25.63%
Income tax expense (recovery) at statutory rate		**1,027**		4,571
Difference from higher statutory tax rates on foreign subsidiaries		**171**		744
Non-deductible items for tax purposes		**(934)**		69
Mexican flat tax		**(991)**		(1,490)
Non-capital loss carry forwards				-
Unrecognized benefit of temporary differences		**78**		(393)
Income tax (recovery) expense	**$**	**(649)**	$	3,501

During the 2013 taxation year, the British Columbia provincial corporate tax rate increased from 10% to 11%. The Company's statutory rate is 25.33% for the year ended July 31, 2013 (2012: 25.63%).

The significant components of the Company's deferred income tax assets and liabilities are as follows:

(in thousands of Canadian dollars unless otherwise stated)

18. Income Taxes – (cont'd)

July 31,		**2013**		2012
Deferred income tax assets (liabilities):				
Mining interest, plant and equipment	**$**	**(8,326)**	$	(8,797)
Payments to defer		**(399)**		(17)
Insurance		**(46)**		(52)
Provision for reclamation and closure		**599**		485
Expenses reserve		**103**		58
Pension-fund reserve		**87**		28
Share issuance costs		**23**		-
Non-capital losses available		**121**		-
Other		**436**		738
Deferred income tax liabilities, net	**$**	**(7,402)**	$	(7,557)

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributable to the following:

July 31,		**2013**		2012
Mining interest, plant and equipment	**$**	**3,135**	$	6,936
Share issuance costs		**-**		140
Capital losses available		**369**		370
Non-capital losses available		**3,707**		6,321
Unrealized foreign exchange on account of capital		**2,142**		-
	$	**9,352**	$	13,767

At July 31, 2013, the Company has tax losses of approximately $4,171 (July 31, 2012: $6,300) in Canada and $Nil (July 31, 2012: $Nil) in Mexico available for carry-forward to reduce future years' taxable income, expiring between 2027 and 2033 in Canada. The Company also has capital losses, in Canada, of approximately $370 (July 31, 2012: $370) for carry-forward to reduce future years' taxable capital gains.

Deferred income tax benefits which may arise as a result of applying these deductions and benefits and liabilities resulting from temporary differences as outlined above have been recognized in these accounts on the belief that they are more likely than not to be utilized.

In accordance with Mexican tax law, Bernal is subject to income tax. Income tax is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through an inflationary component

Mexican tax law also requires a calculation of Business Flat Tax ("IETU"), which functions similar to an alternative minimum corporate income tax, except that any amounts paid are not creditable against deferred income tax payments. Taxpayers are subject to the higher of the IETU or the taxpayer's income tax liability computed under the Mexican Income Tax Law. The IETU applies to individuals and corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5%.

Included in amounts receivable and against the provision for income taxes are $1.85 million relating to a refund of 2008, 2009 and 2010 IETU payments. Based on recent tax precedents, management has amended the tax filings for these years to adjust the method in which the forward contract payments are included for IETU calculations. Approximately $838 of these refunds are included in amounts receivable at July 31, 2013.