

**Starcore International Mines Ltd.**

**Consolidated Financial Statements**

**For the year ended July 31, 2012**

## 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, 2012, July 31, 2011 and August 1, 2010, and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years ended July 31, 2012 and July 31, 2011, 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, 2012, July 31, 2011 and August 1, 2010, and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

*Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, Canada  
October 25, 2012

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

As at	July 31, 2012	July 31, 2011 (Note 19)	August 1, 2010 (Note 19)
<b>Assets</b>			
<b>Current</b>			
Cash (note 5)	\$ 1,675	\$ 712	\$ 824
Short-term investments (note 5)	1,612	1,250	761
Amounts receivable (notes 6 and 18)	3,518	1,779	1,150
Inventory (note 7)	2,432	2,199	1,065
Prepaid expenses and advances	2,585	1,593	832
<b>Total Current Assets</b>	<b>11,822</b>	7,533	4,632
<b>Non-Current</b>			
Mining interest, plant and equipment (note 8)	43,060	39,104	40,538
Deferred tax assets (note 18)	1,309	6,768	7,712
<b>Total Non-Current Assets</b>	<b>44,369</b>	45,872	48,250
<b>Total Assets</b>	<b>\$ 56,191</b>	\$ 53,405	\$ 52,882
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	\$ 1,684	\$ 6,472	\$ 3,300
Loan payable (note 9)	7,698	2,659	3,937
Current portion of forward contract obligations (note 14)	-	11,137	6,228
<b>Total Current Liabilities</b>	<b>9,382</b>	20,268	13,465
<b>Non-Current</b>			
Forward contract obligations (note 14)	-	7,242	10,104
Rehabilitation and closure cost provision (note 10)	1,505	1,473	1,275
Deferred tax liabilities (note 18)	8,866	9,224	10,942
Other long-term liabilities (note 11)	2,724	2,632	2,633
<b>Total Non-Current Liabilities</b>	<b>13,095</b>	20,571	24,954
<b>Total Liabilities</b>	<b>22,477</b>	40,839	38,419

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)**

	<b>July 31, 2012</b>	July 31, 2011 (Notes 19)	August 1, 2010 (Notes 19)
<b>Equity</b>			
Share capital (note 12)	<b>43,053</b>	36,750	34,909
Equity reserve	<b>10,620</b>	10,240	9,548
Foreign currency translation reserve	<b>(3,294)</b>	(3,424)	(3,171)
Accumulated deficit	<b>(16,665)</b>	(31,000)	(26,823)
<b>Total Equity</b>	<b>33,714</b>	12,566	14,463
<b>Total Liabilities and Equity</b>	<b>\$ 56,191</b>	\$ 53,405	\$ 52,882

**Commitments (notes 12 and 14)**

**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 (Loss)**  
**(in thousands of Canadian dollars except per share amounts)**

<b>For the year ended July 31,</b>	<b>2012</b>	<b>2011</b>
		(Notes 19)
<b>Revenues</b>		
Mined ore	\$ 38,524	\$ 29,413
Purchased concentrate	18,515	10,052
<b>Total Revenues</b>	<b>57,039</b>	39,465
<b>Cost of Sales (note 7)</b>		
Mined ore	17,530	15,759
Purchased concentrate	17,819	9,752
<b>Total Cost of Sales</b>	<b>(35,349)</b>	(25,511)
<b>Earnings from mining operations</b>	<b>21,690</b>	13,954
Financing costs (note 9)	(1,328)	(13,177)
Finance income	24	-
Foreign exchange gain (loss)	681	(210)
Impairment of investment	-	(300)
Professional and consulting fees	(711)	(432)
Management fees and salaries	(1,075)	(534)
Office and administration	(1,097)	(701)
Shareholder relations	(348)	(237)
Impairment of equipment	-	(179)
<b>Earnings (loss) before taxes</b>	<b>17,836</b>	(1,816)
<b>Income taxes expense (note 18)</b>	<b>(3,501)</b>	(2,361)
<b>Earnings (loss) for the year</b>	<b>14,335</b>	(4,177)
<b>Other comprehensive income (loss)</b>		
Foreign currency translation differences	130	(253)
<b>Comprehensive income (loss) for the year</b>	<b>\$ 14,465</b>	\$ (4,430)
<b>Basic income (loss) per share (Note 17)</b>	<b>\$ 0.11</b>	\$ (0.05)
<b>Diluted income (loss) per share (Note 17)</b>	<b>\$ 0.10</b>	\$ (0.05)

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)**

<b>For the year ended July 31,</b>	<b>2012</b>	<b>2011</b>
		(Notes 19)
<b>Cash provided by</b>		
<b>Operating activities</b>		
Earnings (loss) for the year	\$ 14,335	\$ (4,177)
Items not involving cash		
Depreciation and depletion	4,480	2,379
Share-based compensation (note 12)	560	235
Interest revenue	(24)	-
Interest on long-term debt	324	189
Unwinding of discount on long-term debt	869	239
Employee profit sharing provision (note 11)	(39)	194
Rehabilitation and closure cost accretion (note 10)	148	195
Impairment of investment	-	300
Net (gain) loss on forward contracts (note 14)	(106)	12,541
Income tax expense	3,501	2,361
Write-down of equipment	-	179
Change in non-cash working capital items		
Prepaid expenses and advances	(918)	(859)
Amounts receivable	(1,660)	(745)
Inventory	(125)	(1,267)
Trade and other payables	(5,033)	3,309
Taxes paid	1,490	(3,049)
<b>Cash provided by operating activities</b>	<b>17,802</b>	<b>12,024</b>
<b>Financing activities</b>		
Share issuances	5,850	2,543
Share issue costs	(87)	(148)
Advance of loan payable	11,000	-
Repayment of loan payable	(5,941)	(1,237)
Interest paid	(324)	(189)
Financing costs	(376)	-
Realized forward contract settlements	(19,185)	(9,184)
<b>Cash outflows for financing activities</b>	<b>(9,063)</b>	<b>(8,215)</b>
<b>Investing activities</b>		
Purchase of short-term investments	(4,100)	(2,250)
Sale of short-term investments	3,750	1,759
Interest received	12	6
Investment in subsidiary	(100)	(200)
Purchase of mining interest, plant and equipment	(6,372)	(4,197)
Disposal of mining interest, plant and equipment	-	171
<b>Cash outflows for investing activities</b>	<b>(6,810)</b>	<b>(4,711)</b>
<b>Total increase (decrease) in cash</b>	<b>1,929</b>	<b>(902)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(966)</b>	<b>790</b>
<b>Cash, beginning of year</b>	<b>712</b>	<b>824</b>
<b>Cash, end of year</b>	<b>\$ 1,675</b>	<b>\$ 712</b>

Non-cash transactions - note 12

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

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**Starcore International Mines Ltd.****Consolidated Statements of Changes in Equity for the years ended July 31, 2012 and 2011****(in thousands of Canadian dollars, except for number of shares)**

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	<b>Number of Shares Outstanding</b>	<b>Share Capital Amount</b>	<b>Equity Reserve</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Deficit</b>	<b>Total</b>
Balance, August 1, 2010 (Note 19)	82,690,789	\$ 34,909	\$ 9,548	\$ (3,171)	\$ (26,823)	\$ 14,463
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:						
Cash payments	-	(120)	(28)	-	-	(148)
Fair value of agents' warrants	-	(76)	76	-	-	-
Deferred tax recovery on expiry of warrants	-	-	(97)	-	-	(97)
Extension of warrant expiry date	-	(55)	55	-	-	-
Share-based compensation	-	-	235	-	-	235
Foreign currency translation	-	-	-	(253)	-	(253)
Loss for the year	-	-	-	-	(4,177)	(4,177)
Balance, July 31, 2011 (Note 19)	105,808,970	36,750	10,240	(3,424)	(31,000)	12,566
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
<b>Balance, July 31, 2012</b>	<b>139,796,651</b>	<b>\$ 43,053</b>	<b>\$ 10,620</b>	<b>\$ (3,294)</b>	<b>\$ (16,665)</b>	<b>\$ 33,714</b>

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

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**Starcore International Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**(in thousands of Canadian dollars unless stated otherwise)**

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**July 31, 2012**

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**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 Compañía 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

The consolidated financial statements for the Company for the year ending July 31, 2012, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), having previously prepared its consolidated financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (“Pre-changeover GAAP”). These consolidated financial statements for the year ended July 31, 2012, have applied IFRS 1 First-Time Adoption of International Financial Reporting Standards as this is the Company’s first IFRS annual reporting period.

These 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 19.

The consolidated financial statements were authorized for issue by the Board of Directors on October 25, 2012.

b) Basis of Measurement

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

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.

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**Starcore International Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**(in thousands of Canadian dollars unless otherwise stated)**

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**July 31, 2012**

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**2. Basis of Preparation – (cont'd)**

c) Basis of consolidation

These 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, SAM Servicios Administrativos Mineros, S.A. de C.V. (Mexico), Compañía Minera Peña de Bernal, S.A. de C.V. (Mexico) and 1794598 Ontario Inc. (Canada) carry out their operations in Mexico.

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 adopted for the year ending July 31, 2012 and have been applied consistently to all periods presented in these 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 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(Loss) 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 the date of the transactions.

**July 31, 2012**

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

b) Foreign Operations

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. At July 31, 2012 and 2011, the Company had no cash equivalents.

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.

d) 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 Company's profit and loss.

**July 31, 2012**

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

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.

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.

**July 31, 2012**

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

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

*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.

*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.

**July 31, 2012**

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

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(Loss). 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(Loss). Rehabilitation and closure cost obligations related to inactive mines are included in production costs in the Consolidated Statement of Operations and Comprehensive Income(Loss) on initial recognition and subsequently when re-measured.

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.

**July 31, 2012**

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

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 and short-term investments are all accounted for as loans and receivables.

*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.

**July 31, 2012**

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

i) Financial Instruments – (cont'd)

*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 14) and warrants exercisable in USD (Note 12).

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.

**July 31, 2012**

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

j) Income Taxes – (cont'd)

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.

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.

**July 31, 2012**

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

m) Share-based Payments – (cont’d)

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.

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.

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 7	Financial Instruments: Disclosures, amendments regarding Disclosures – Transfers of Financial Assets
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)

**July 31, 2012**

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

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

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 12	Income Taxes, amendments regarding deferred Tax: Recovery of Underlying Assets
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 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.

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.

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**July 31, 2012**

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

b) Rehabilitation Provisions – (cont'd)

The inflation rate applied to estimated future rehabilitation and closure costs is 5% and the discount rate currently applied in the calculation of the net present value of the provision is 11%

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.

**5. Cash and Short-term Investments**

At July 31, 2012, the Company held Guaranteed Investment Certificates ("GICs") with a market value of \$1,612, earning interest income at prime minus 1.8% per annum and maturing on February 4, 2013 (July 31, 2011: \$1,250 and August 1, 2010: \$761). This GIC is cashable at the Company's option and is 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.

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**6. Amounts Receivable**

	<b>July 31, 2012</b>	July 31, 2011	August 1, 2010
Taxes receivable	\$ 3,330	\$ 1,590	\$ 876
Customers	141	172	200
Other	47	17	74
	<b>\$ 3,518</b>	<b>\$ 1,779</b>	<b>\$ 1,150</b>

**7. Inventory**

	<b>July 31, 2012</b>	July 31, 2011	August 1, 2010
Carrying value of inventory:			
Doré	\$ 1,585	\$ 1,539	\$ 484
Work-in-process	160	160	160
Supplies	687	500	421
	<b>\$ 2,432</b>	<b>\$ 2,199</b>	<b>\$ 1,065</b>

**For the year ended July 31,**

	<b>2012</b>	2011
Inventory included in cost of sales:		
Mined ore	\$ 13,745	\$ 13,415
Purchased concentrate	17,151	9,752
	<b>\$ 30,896</b>	<b>\$ 23,167</b>

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**8. Mining Interest, Plant and Equipment**

	<b>Mining Interest</b>	<b>Plant and Equipment</b>	<b>Corporate Office Equipment</b>	<b>Total</b>
<b>Cost</b>				
Balance August 1, 2010	\$ 39,507	\$ 8,607	\$ 303	\$ 48,417
Additions	3,223	842	-	4,065
Disposals	-	(378)	(71)	(449)
Effect of foreign exchange	(2,941)	(647)	-	(3,588)
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
<b>Balance July 31, 2012</b>	<b>\$ 45,978</b>	<b>\$ 10,956</b>	<b>\$ 243</b>	<b>\$ 57,177</b>
<b>Depreciation</b>				
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 year	3,825	628	27	4,480
Effect of foreign exchange	153	143	-	296
<b>Balance July 31, 2012</b>	<b>\$ 10,160</b>	<b>\$ 3,749</b>	<b>\$ 208</b>	<b>\$ 14,117</b>
<b>Carrying amounts</b>				
Balance August 1, 2011	\$ 34,462	\$ 5,973	\$ 103	\$ 40,538
Balance July 31, 2011	\$ 33,607	\$ 5,446	\$ 51	\$ 39,104
<b>Balance July 31, 2012</b>	<b>\$ 35,818</b>	<b>\$ 7,207</b>	<b>\$ 35</b>	<b>\$ 43,060</b>

**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 bears interest at 11% per annum, compounded and payable monthly, with monthly principal payments of \$917 to be made commencing May 31, 2012, with the final payment due on or before April 30, 2013. The Facility may be repaid in full without penalty on or after October 31, 2012.

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 will be 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.

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**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.

The Discount is being charged to the Company's profit and loss and added to the liability as the Loan is repaid. During the year ended July 31, 2012, the Company made payments totaling \$2,999, consisting of \$2,750 repayment of principal and \$249 of interest. As a result of the repayments, \$184 of the discount was recognized as a financing cost in the Company's total earnings.

	<b>Principal</b>	<b>Discount</b>	<b>Total</b>
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
<b>Balance, July 31, 2012</b>	<b>\$ 8,250</b>	<b>\$ (552)</b>	<b>\$ 7,698</b>

During the year ended July 31, 2012, the Company repaid the balance of a US\$13 million bank loan with Investec (the "Investec Loan"), which originally was repayable quarterly from February, 2007 to January 31, 2013. Pursuant to the Acquisition of Bernal (note 1), the Company arranged the Investec Loan, which bore interest at LIBOR plus 4% and was secured by all of the assets of Bernal, all of the shares of Bernal and by a guarantee from the Company. During the year ended July 31, 2012, the effective interest rate to the Company was 4.52% (July 31, 2011 – 4.46%). In January, 2012, the Company repaid the outstanding balance of the Investec Loan in full, without penalty, with a final principal payment of US\$3,185. Pursuant to this Investec Loan, the Company issued 12,442,000 and 6,794,000 detachable warrants ("Loan Warrants") exercisable to acquire common shares of the Company at a price of \$0.76, (or US\$0.643) until January 31, 2011 and \$0.87 (or US\$0.736) per share until January 31, 2013, respectively. The 12,442,000 Loan Warrants expired, unexercised on January 31, 2011 and upon full repayment of the Investec Loan on January 31, 2012, the remaining Loan Warrants expired unexercised.

The Investec 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 Investec Loan from February 28, 2007 to January 31, 2013. On May 17, 2012, the Company used the funds from the Facility to settle its obligation under the forward sales agreement (Note 14). The final 10,885 ounces which were to be settled over the final 9 months to January 31, 2013, were repurchased for \$9,042 at a price averaging \$1,562 per ounce. Having fully repaid the forward contracts, the Company has been released from all commitments under the Investec Loan.

The Investec Loan was classified as 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 Investec Loan discount was the difference between the face value of the original Investec Loan, US\$13,000 or \$15,301 less the fair value originally allocated to the non-transferable warrants. As a result, the recorded liability to repay the Investec Loan was lower than its face value. The fair value of the warrants was determined using the Black-Scholes valuation calculation using the following assumptions:

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**9. Loan Payable – (cont'd)**

Grant Date mm/dd/yy	01/31/07	01/31/07
Expiry Date mm/dd/yy	01/31/11	01/31/13
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 was being charged to the consolidated Statement of Operations and Comprehensive Income(Loss) and added to the liability as the Investec Loan was repaid. As a result of the repayment of the remaining outstanding balance of the Investec Loan on January 31, 2012, the remainder of the discount, \$685, was recognized as a financing cost on the Company's statement of comprehensive income for the year ended July 31, 2012 (July 31, 2011 - \$239).

	<b>Investec Loan</b>	<b>Discount</b>	<b>Total</b>
Balance, August 1, 2010	\$ 4,879	\$ (942)	\$ 3,937
Payments made during the year	(1,237)	-	(1,237)
Unwinding of discount	-	239	239
Foreign exchange fluctuation	(288)	8	(280)
Balance, July 31, 2011	3,354	(695)	2,659
Payments made during the period	(3,191)	-	(3,191)
Unwinding of discount	-	685	685
Foreign exchange fluctuation	(163)	10	(153)
<b>Balance, July 31, 2012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

A summary of the Investec Loan balance is as follows:

	<b>July 31, 2012</b>	<b>July 31, 2011</b>	<b>August 1, 2010</b>
Investec Loan	\$ -	\$ 3,354	\$ 4,879
Less: Discount	-	(695)	(942)
	-	2,659	3,937
Less: Current portion	-	(1,557)	(1,025)
	-	1,102	2,912
Less: Reclass to current	-	(1,102)	(2,912)
<b>Long-term portion</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Management had reclassified the Investec Loan as current on the balance sheet (see note 1). This reclassification did not affect the repayment schedule of the Investec Loan.

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**9. Loan Payable – (cont'd)**

The Company's financing costs for the years ended July 31, 2012 and 2011 as reported on its Consolidated Statement of Operations and Comprehensive Income (Loss) can be summarized as follows:

<b>For the years ended July 31,</b>	<b>2012</b>	<b>2011</b>
Rehabilitation and closure accretion (Note 10)	\$ 148	\$ 153
Investec Loan unwinding of discount	685	239
Investec Loan interest expense	145	189
Investec Loan financing cost	23	55
Facility discount unwinding	184	-
Facility interest expense	249	-
Net (gain) loss on forward contract obligations (Note 14)	(106)	12,541
	<b>\$ 1,328</b>	<b>\$ 13,177</b>

**10. Rehabilitation and Closure Cost Provision**

The Company's asset retirement obligations consist of reclamation and closure costs for the mine. At July 31, 2012, the present value of obligations is estimated at \$1,505 (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 \$2,858 (July 31, 2011 - \$3,248; August 1, 2010 - \$2,824), which is calculated annually over 5 to 10 years. Such liability was determined using a discount 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:

	<b>July 31, 2012</b>	<b>July 31, 2011</b>
Balance, beginning of year	\$ 1,473	\$ 1,275
Accretion expense	148	153
Foreign exchange fluctuation	(116)	3
Revisions in assumptions, estimates and liabilities incurred	-	42
	<b>\$ 1,505</b>	<b>\$ 1,473</b>

**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.

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**July 31, 2012**

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**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 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.

During the period 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;
- 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.

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 equity reserve increased by \$236.

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**12. Share Capital - (cont'd)**

a) Common Shares – (cont'd)

The fair value of the warrants was determined using the Black-Scholes model using an expected annual volatility of 97% over a 2 year expected life and a risk free interest rate of 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 using an expected annual volatility of 82% over a 2 year expected life and a risk free interest rate of 1.72%.

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

The fair value of agents' warrants was determined using the Black-Scholes model using an expected annual volatility of 98% over a 1 year expected life and a risk free interest rate of 1.72%.

b) Warrants

Pursuant to the financing during the year ended July 31, 2012, the Company issued 4,505,000 warrants, each warrant entitles the holder to acquire one common share of the Company at \$0.35 until January 30, 2014.

In conjunction with the 2012 financing, the Company issued 464,800 warrants to agents, exercisable at \$0.25 until January 30, 2013.

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.

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 using the Black-Scholes model and was recognized in equity during the year.

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**12. Share Capital – (cont'd)**

b) Warrants – (cont'd)

A summary of the Company's outstanding share purchase warrants at July 31, 2012 and 2011 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price	Equity reserve 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 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	-
<b>Outstanding at July 31, 2012</b>	<b>8,231,614</b>	<b>\$ 0.27</b>	<b>\$ 948</b>

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.

Pursuant to the Investec Loan financing (Note 9), the Company issued 19,236,000 US denominated 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 expired unexercised on January 31, 2012, upon full repayment of the Investec Loan. There was no value to the warrants in the periods presented (Note 19).

At July 31, 2012, there were 8,281,614 warrants exercisable to purchase one common share for each warrant held as follows:

Number of Shares	Exercise Price	Expiry Date
464,800	\$0.25	January 30, 2013
3,261,814	\$0.15	April 7, 2013
4,505,000	\$0.35	January 30, 2014
<b>8,231,614</b>	<b>\$0.27</b>	

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**12. Share Capital - (cont'd)**

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.

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			Closing	Closing, Vested and Exercisable
				Granted	Exercised	Cancelled/ Forfeited		
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

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			Closing	Closing, Vested and Exercisable
				Granted	Exercised	Cancelled/ Forfeited		
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 year ended July 31, 2012, the Company has stock-based compensation expense of \$560 (July 31, 2011: \$235), which has been recorded in the statement of comprehensive income and credited to equity reserve. These amounts have been expensed as follows:

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**12. Share Capital - (cont'd)**

c) Share-based Payments – (cont'd)

<b>For the year ended July 31,</b>	<b>2012</b>		<b>2011</b>	
Cost of Sales – Mined ore	\$	<b>98</b>	\$	79
Professional and consulting fees		<b>2</b>		-
Management fees and salaries		<b>418</b>		113
Office and administration		<b>35</b>		40
Shareholder relations		<b>7</b>		3
	<b>\$</b>	<b>560</b>	<b>\$</b>	<b>235</b>

During the year ended July 31, 2012 the Company granted 6,110,000 share purchase options to directors, officers, employees and consultants. The fair value of options granted during the year ended July 31, 2012 and 2011 was estimated using the Black-Scholes option-pricing model with the following assumptions and other information at date of grant:

Grant Date mm/dd/yy	04/13/12	01/27/12	01/16/12	05/06/11	10/06/10
Expiry Date mm/dd/yy	04/13/17	01/27/17	01/16/17	05/06/16	10/06/15
Spot price at grant	\$0.395	\$0.255	\$0.21	\$0.125	\$0.12
Exercise price	\$0.37	\$0.25	\$0.20	\$0.15	\$0.15
Dividend Rate	n/a	n/a	n/a	n/a	n/a
Risk free interest rate	1.47%	1.18%	1.18%	2.34%	1.79%
Expected life	5 years	5 years	5 years	5 years	5 years
Expected annual volatility	81%	81%	81%	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.

**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 carried at their fair value. Based on a market price of LIBOR plus 6%, the fair value of the Investec Loan payable at July 31, 2011 was \$3,290; at August 1, 2010 the fair value was \$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 July 31, 2012, the Company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos (MP):

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**July 31, 2012**

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**13. Financial Instruments – (cont'd)**

	<b>In '000 of CDN Dollars</b>	<b>In '000 of Mexican Pesos (MP)</b>
Cash	\$ 1,918	MP 941
Other working capital amounts - net	\$ 1	MP 118,658
Long-term liabilities	\$ -	MP 36

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At July 31, 2012, US dollar amounts were converted at a rate of \$1.002 Canadian dollars to \$1 US dollar and Mexican Pesos were converted at a rate of MP13.283 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 \$2,100. A 10% increase or decrease in the MP exchange rate will decrease or increase annual earnings from mining operations by approximately \$2,100.

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. 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 is not significantly exposed to interest rate fluctuations.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash, the balance of which at July 31, 2012 is \$1,675. Cash of \$71 is held at a Mexican financial institution, the remainder of \$1,604 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 July 31, 2012 is \$1,612. 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 July 31, 2012, the Company was holding cash of \$1,675, and short-term investments of \$1,612.

**Starcore International Mines Ltd.**  
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**13. Financial Instruments – (cont'd)**

Obligations due within twelve months of July 31,	2012	2013	2014	2015	2016 and beyond
Trade and other payables	\$ 1,684	\$ -	\$ -	\$ -	\$ -
Loan payable	8,250	-	-	-	-
Reclamation and closure obligations	-	-	-	-	1,505
Other long-term liabilities	-	-	-	-	2,724

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 notes 1 and 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, 2012:

Forward Sales Contracts

During the year ended July 31, 2012, the Company settled the Investec Loan agreement (Note 9) and the forward sales agreement, entered into on the Acquisition, which required that the Company sell of 81,876 ounces of gold at a price of US\$731 per ounce until January, 2013. These gold sales contracts met the definition of derivatives because, although the obligation may have been met by the physical delivery of gold, historically it had been more economical to settle these obligations with cash. As a result of settling the remaining gold sales contracts during the year, the fair value of the remaining gold sales contracts as at July 31, 2012 was US\$Nil (July 31, 2011 – US\$19,235; August 1, 2010 - US\$15,883 based on a per ounce gold value of July 31, 2011 - US\$1,621; August 1, 2010 – US\$1,180). Changes to the Company's forward contract obligations for the year ended July 31, 2012 and 2011 are 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)	19,235	19,291
Foreign exchange fluctuation	-	(912)
<b>Balance, July 31, 2012</b>	<b>\$ -</b>	<b>\$ -</b>

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**14. Commitments – (cont'd)**

Effectiveness of the forward contracts against the price of gold for the year ended July 31, 2012 and 2011:

<b>For the year ended July 31,</b>	<b>2012</b>	2011
Net unrealised forward contract gain (loss)	\$ -	\$ (3,357)
Gain on forward contract settlement	19,291	-
Realised forward contract loss	(19,185)	(9,184)
<b>Net gain (loss) on forward contract obligations</b>	<b>\$ 106</b>	<b>\$ (12,541)</b>

Other Commitments

Except as disclosed elsewhere in these consolidated financial statements, the Company has the following commitments outstanding at July 31, 2012:

- As at July 31, 2012, 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.
- As at July 31, 2012, the Company has management contracts to officers and directors totaling \$600 per year, payable monthly, expiring in January 2017.

During the years ended July 31, 2012 and 2011, the Company paid the following amounts to key management and directors:

<b>For the year ended July 31,</b>	<b>2012</b>	2011
Management fees	\$ 599	\$ 651
Legal Fees	28	24
Directors fees	34	37
Share-based payments	160	138
<b>Total</b>	<b>\$ 821</b>	<b>\$ 850</b>

**15. Segmented Information**

During the year ended July 31, 2012, 100% of the Company's reportable sales were to two third parties. The balance owing from these customers on July 31, 2012 was \$141 (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:

	<b>Mexico</b>		<b>Canada</b>		<b>July 31, 2012</b>
					<b>Total</b>
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

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**15. Segmented Information – (cont'd)**

	Mexico	Canada	July 31, 2011 Total
Revenue	\$ 39,465	\$ -	\$ 39,465
Earnings (loss) for the year	(2,725)	(1,452)	(4,177)
Mining interest, plant and equipment	39,053	51	39,104
Total assets	51,501	1,904	53,405

**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.

**17. Earnings and Loss 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:

<b>Year ended July 31,</b>	<b>2012</b>	2011
Issued common shares at August 1,	<b>105,808,970</b>	82,690,789
Weighted average issuances	<b>19,097,470</b>	5,325,244
Basic weighted average common shares	<b>124,906,440</b>	88,016,033
Effect of dilutive warrants and options	<b>16,586,599</b>	-
Diluted weighted average common shares	<b>141,493,039</b>	88,016,033

Given the exercise price of the Company's share purchase options outstanding exceeded the market price of the Company's shares on the exchange throughout the year ended July 31, 2012, shares issuable on exercise of vested options totalling 4,868,015 were not included in the computation of diluted earnings per share. Shares issuable on exercise of purchase options and warrants outstanding throughout the year ended July 31, 2011, totalling 41,397,661 were not included in the computation of diluted loss per share because the impact would be anti-dilutive.

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**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:

<b>Year ended July 31,</b>	<b>2012</b>	<b>2011</b>
Earnings (loss) before income taxes	\$ 17,836	\$ (1,816)
Canadian statutory income tax rate	25.63%	27.33%
Income tax expense (recovery) at statutory rate	4,571	(496)
Difference from higher statutory tax rates on foreign subsidiaries	744	-
Non-deductible items for tax purposes	69	97
Adjustment of provision to statutory tax returns	-	-
Mexican flat tax	(1,490)	2,870
Non-capital loss carry forwards	-	-
Unrecognized benefit of temporary differences	(393)	(110)
Deferred income taxes	\$ 3,501	\$ 2,361

During the taxation year, the Canadian federal corporate tax rate decreased from 16.5% to 15.0%. This resulted in a decrease in the Company's statutory rate from 27.33% to 25.63%.

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

<b>July 31,</b>	<b>2012</b>	<b>2011</b>
Deferred income tax assets (liabilities):		
Mining interest, plant and equipment	\$ (8,797)	\$ (9,199)
Payments to defer	(17)	(8)
Insurance	(52)	(17)
Supplies	-	8
Provision for reclamation and closure	485	462
Expenses reserve	58	55
Pension-fund reserve	28	-
Other	738	703
Deferred income tax liabilities, net	\$ (7,557)	\$ (2,456)

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

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**18. Income Taxes – (cont'd)**

<b>July 31,</b>	<b>2012</b>	<b>2011</b>
Mining interest, plant and equipment	\$ 6,936	\$ 6,282
Share issuance costs	140	218
Capital losses available	370	337
Non-capital losses available	6,321	7,483
	<b>\$ 13,767</b>	<b>\$ 14,318</b>

At July 31, 2012, the Company has tax losses of approximately \$6,300 (July 31, 2011: \$7,500) in Canada and \$Nil (July 31, 2011: \$Nil) in Mexico available for carry-forward to reduce future years' income taxes, expiring between 2027 and 2032 in Canada. The Company also has capital losses, in Canada, of approximately \$370 (July 31, 2011: \$337) 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 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.

**19. First Time Adoption of International Financial Reporting Standards**

The Company's consolidated financial statements for the year ending July 31, 2012, are the first annual consolidated 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 for all periods presented. 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 mandatory exceptions for first time IFRS adoption. Prior to Transition to IFRS, the Company prepared its consolidated financial statements in accordance with Pre-changeover GAAP.

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

**July 31, 2012**

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

Optional Exemptions

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 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.

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.

**July 31, 2012**

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

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 net cash flows, no reconciliation of the statement of cash flows has been prepared.

*i) Foreign Denominated Warrants*

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

Under Pre-changeover GAAP, the Investec Loan discount was determined as being the difference between the face value of the original Investec Loan, US\$13,000 or \$15,301 less the portion of the Investec 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 Statement of Operations and Comprehensive Income(Loss) as the Investec Loan was repaid. The \$1,108 discount was allocated to equity reserve, as the value assigned to the warrants and the warrants were included in the share capital note disclosure of the consolidated financial statements.

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 12). 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 the warrants were considered derivative liabilities, they have been removed from the share capital note disclosure and are discussed in Note 12.

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

*i) Foreign Denominated Warrants – (cont'd)*

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, equity reserve 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 Investec 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 initial discount to \$2,953 as discussed above.

*ii) Deferred Income Taxes*

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

**Starcore International Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
**(in thousands of Canadian dollars unless otherwise stated)**

**July 31, 2012**

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

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

As at	Note	August 1, 2010 Pre-Changeover	Effect of Transition to IFRS	August 1, 2010 IFRS
<b>Assets</b>				
<b>Total Current Assets</b>		\$ 4,632	\$ -	\$ 4,632
<b>Non-Current</b>				
Mining interest, plant and equipment		40,538	-	40,538
Deferred tax asset – non-current	(ii)	-	7,712	7,712
<b>Total Non-Current Assets</b>		40,538	7,712	45,754
<b>Total Assets</b>		\$ 45,170	\$ 7,712	\$ 52,882
<b>Liabilities</b>				
<b>Current</b>				
Trade and other payables		\$ 3,300	\$ -	\$ 3,300
Current portion of loan payable	(i)	4,526	(589)	3,937
Current portion of forward contract obligations		6,228	-	6,228
<b>Total Current Liabilities</b>		14,054	(589)	13,465
<b>Non-Current</b>				
Forward contract obligations		10,104	-	10,104
Rehabilitation and closure cost provision		1,275	-	1,275
Deferred tax liability – non-current	(ii)	3,230	7,712	10,942
Other long-term liabilities		2,633	-	2,633
<b>Total Non-Current Liabilities</b>		17,242	7,712	24,954
<b>Total Liabilities</b>		31,296	7,123	38,419
<b>Equity</b>				
Share capital		34,909	-	34,909
Equity reserve	(i)	10,656	(1,108)	9,548
Foreign currency translation reserve	(i)	(2,970)	(201)	(3,171)
Accumulated deficit	(i)	(28,721)	1,898	(26,823)
<b>Total Equity</b>		13,874	589	14,463
<b>Total Liabilities and Equity</b>		\$ 45,170	\$ 7,712	\$ 52,882

**Starcore International Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**July 31, 2012**

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

Reconciliation of Consolidated Statement of Financial Position as at July 31, 2011

As at	Note	July 31, 2011 Pre-Changeover	Effect of Transition to IFRS	July 31, 2011 IFRS
<b>Assets</b>				
<b>Total Current Assets</b>		\$ 7,533	\$ -	\$ 7,533
<b>Non-Current</b>				
Mining interest, plant and equipment		39,104	-	39,104
Deferred tax asset – non-current	(i)	-	6,768	6,768
<b>Total Non-Current Assets</b>		39,104	6,768	45,872
<b>Total Assets</b>		\$ 46,637	\$ 6,768	\$ 53,405
<b>Liabilities</b>				
<b>Current</b>				
Trade and other payables		\$ 6,472	\$ -	\$ 6,472
Current portion of loan payable	(i)	3,111	(452)	2,659
Current portion of forward contract obligations		11,137	-	11,137
<b>Total Current Liabilities</b>		20,720	(452)	20,268
<b>Non-Current</b>				
Forward contract obligations		7,242	-	7,242
Rehabilitation and closure cost provision		1,473	-	1,473
Deferred tax liability – non-current	(ii)	2,456	6,768	9,224
Other long-term liabilities		2,632	-	2,632
<b>Total Non-Current Liabilities</b>		13,803	6,768	20,571
<b>Total Liabilities</b>		34,523	6,316	40,839
<b>Equity</b>				
Share capital		36,750	-	36,750
Equity reserve	(i)	11,348	(1,108)	10,240
Foreign currency translation reserve	(i)	(3,240)	(184)	(3,424)
Accumulated deficit	(i)	(32,744)	1,744	(31,000)
<b>Total Equity</b>		12,114	452	12,566
<b>Total Liabilities and Equity</b>		\$ 46,637	\$ 6,768	\$ 53,405

**Starcore International Mines Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**July 31, 2012**

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

Reconciliation of Consolidated Statement of Operations and Comprehensive Income (Loss) for the year ended July 31, 2011

<b>Year ended</b>	<b>Note</b>	<b>July 31, 2011 Pre-Changeover</b>	<b>Effect of Transition to IFRS</b>	<b>July 31, 2011 IFRS</b>
<b>Earnings from mining operations</b>		\$ 13,954	\$ -	\$ 13,954
Financing costs	(i)	(13,023)	(154)	(13,177)
Foreign exchange loss		(210)	-	(210)
Impairment of investment		(300)	-	(300)
Professional and consulting fees		(432)	-	(432)
Management fees and salaries		(534)	-	(534)
Office and administration		(701)	-	(701)
Shareholder relations		(237)	-	(237)
Write-down of equipment		(179)	-	(179)
<b>Earnings (loss) before taxes</b>		(1,662)	(154)	(1,816)
<b>Income taxes expense</b>		(2,361)	-	(2,361)
<b>Earnings (loss) for the year</b>		(4,023)	(154)	(4,177)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation differences	(i)	(270)	17	(253)
<b>Comprehensive income (loss) for the year</b>		\$ (4,293)	\$ (137)	\$ (4,430)
<b>Basic and diluted income (loss) per share</b>		\$ (0.05)	\$ (0.00)	\$ (0.05)