MANAGEMENT DISCUSSION & ANALYSIS

For the year ended July 31, 2011

Directors and Officers as at October 24, 2011:

Directors:

Gary Arca
Robert Eadie
Dave Gunning
Cory Kent
Arturo Prestamo
Jordan Estra
Ken Sumanik
Federico Villaseñor

Officers:

President – Ralf Kleine
Chief Executive Officer – Robert Eadie
Chief Financial Officer – Gary Arca
Chief Operating Officer – Dave Gunning
Corporate Secretary – Cory Kent

Contact Name: Gary Arca

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Form 51-102-F1

STARCORE INTERNATIONAL MINES LTD.

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended July 31, 2011

1. Date of This Report

This MD&A is prepared as of October 24, 2011.

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Starcore International Mines Ltd. ("Starcore", or the "Company") for the year ended July 31, 2011. **Monetary amounts throughout this MD&A are shown in thousands of Canadian dollars, unless otherwise stated.**

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

2. Overall Performance

Description of Business

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

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the year ended July 31, 2011, the cash flows generated from operations and share issuances exceeded cash used in repaying the loan payable and in investing activities by $112 resulting in the Company's cash balance being $712 with a working capital deficiency of $13,187. While these financial statements have been prepared in accordance with the Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions; there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Loan Facility Agreement ("Agreement") with Investec Bank (U.K.) Limited ("Investec"), as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2011 and 2010, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below 110%. In accordance with reporting requirements, the Company notified Investec and has taken the steps required to rectify the default as at July 31, 2011. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve their concerns. Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59. This reclassification does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

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

3. Selected Annual Information

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

		July 31, 2011		July 31, 2010		July 31, 2009
Revenues	**$**	**39,465**	$	23,201	$	26,556
Cost of Sales		**(25,664)**		(13,765)		(18,878)
Earnings from mining operations		**13,801**		9,436		7,678
Administrative Expenses		**(2,233)**		(2,798)		(2,516)
Other Items		**(13,230)**		(10,718)		(1,770)
Income (loss) before extraordinary items						
(i) Total income (loss)	**$**	**(4,023)**	$	(3,728)	$	4,385
(ii) Income (loss) per share - basic	**$**	**(0.05)**	$	(0.05)	$	0.07
(iii) Income (loss) per share - diluted	**$**	**(0.05)**	$	(0.05)	$	0.04
Net loss						
(i) Total income (loss)	**$**	**(4,023)**	$	(3,728)	$	4,385
(ii) Income (loss) per share - basic	**$**	**(0.05)**	$	(0.05)	$	0.07
(iii) Income (loss) per share - diluted	**$**	**(0.05)**	$	(0.05)	$	0.04
Total assets	**$**	**46,637**	$	45,170	$	46,256
Total long-term liabilities	**$**	**13,803**	$	17,242	$	18,438

4. Results of Operations

Discussion of Acquisitions, Operations and Financial Condition

The following should be read in conjunction with the audited consolidated financial statements of the Company and notes attached thereto for the year ended July 31, 2011.

4.1 San Martín Mine, Queretaro, Mexico

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

Reserves

The San Martin Mine, an ISO 9001 certified facility located approximately 50km east of the City of Queretaro, State of Queretaro, Mexico, consists of mining concessions covering 12,992 hectares and includes seven underground mining units and four units under exploration, as well as an additional property, San Pedrito, located 50 km west of San Martin. Luismin has been operating the mine since 1993 and Starcore will continue to operate the mine over an expected mine life of at least 7 years based on conversion of known resources. Mining at San Martin over the past ten years has been at a rate of approximately 270,000/tonnes per year. Exploration is able to maintain approximately two years proven and probable reserves replacing those mined with new reserves. The Company has filed on SEDAR results for a Reserve estimate for its San Martin Mine in Queretaro, Mexico completed on September 10, 2011.

The result of the estimate is Proven and Probable reserves totaling 586,318 tonnes at a grade of 2.29 g Au/t and 39 g Ag/t. In addition to the Proven and Probable Reserves an Inferred Mineral Resource is estimated at 1.31 million tonnes at an approximate grade of 2.37 g Au/t and 27 g Ag/t. Inferred Mineral Resources are not known to the same degree of certainty as Mineral Reserves and do not have demonstrated economic viability.

The estimate was prepared by mine staff under the direction of Starcore COO David R. Gunning P. Eng. and was independently verified by Joe Campbell P. Geo. both of whom are qualified persons under 43-101.

The most important assumptions used as the basis of the estimate include:

- Total mining costs of $US65 per metric tonne, a gold price of US$1200 and silver price of US$24,
- Metal Recoveries of 87% for gold and 60% for silver,
- Resultant cut-off grade of 2 grams per tonne gold equivalent,
- Mining dilution of between 10 and 32.5% depending on the structure,
- Specific Gravity of 2.55.

The ratio of Probable to Proven Reserves is roughly 2.5:1 and in total there is 57,900 contained gold equivalent ounces. San Martin mines roughly 270,000 tonnes annually but in recent years approximately 50% of production has been from reserves and so the proven and probable reserves outlined above are adequate for at least 2 additional years of production.

The report has been filed on SEDAR and is available on the company website www.imining.com.

As of July 31, 2011, reserves and resources at San Martin as reported in "*RESERVES AND RESOURCES IN THE SAN MARTIN MINE, MEXICO AS OF JULY 31, 2011*", dated September 10, 2011, prepared by David R. Gunning, P.Eng. and Joe Campbell, P. Geo. (the "Technical Report"), were as follows:

Classification	Tonnes (000's)	Gold (g/t)	Silver (g/t)	Gold (000's of oz)	Silver (000's of oz)	Gold Equiv. (000's of oz)
Reserve:						
San Martin Mine						
Proven	178	2.67	42	15.3	240.0	20.1
Probable	408	2.12	38	27.8	499.2	37.8
Total Reserve	**586**			**43.1**	**739.2**	**57.9**
Resource:						
San Martin Mine						
Inferred	1,311	2.37	27	99.9	1,138.2	122.7
Total Resource	**1,897**			**143.0**	**1,877.4**	**180.6**

- A 50:1 silver to gold equivalency ratio was used to calculate gold equivalent ounces.

See the Technical Report, available on SEDAR, for further information on the San Martin Mine.

Production

The following table is a summary of mine production statistics for the San Martin mine for the three and six months ended July 31, 2011 and the cumulative amounts for the twelve months ended January 31, 2011.

(Unaudited)	*Unit of measure*	**Actual results for 3 months ended July 31, 2011**	**Actual results for 6 months ended July 31, 2011**	**Actual results for 12 months ended January 31, 2011**
Mine Production of Gold in Dore	*thousand ounces*	**3.4**	**7.8**	**15.6**
Mine Production of Silver in Dore	*thousand ounces*	**58.9**	**134.9**	**170.0**
Mine Equivalent ounces of Gold	*thousand ounces*	**4.8**	**11.1**	**18.5**
Purchased Concentrate Equivalent ounces	*thousand ounces*	**2.0**	**5.2**	**2.5**
Total Mine Production – Equivalent Ounces	*thousand ounces*	**6.8**	**16.3**	**21.0**
Silver to Gold Equivalency Ratio		**42:1**	**41:1**	**60:1**
Mine Gold grade	*grams/tonne*	**1.7**	**2.0**	**2.05**
Mine Silver grade	*grams/tonne*	**35**	**40**	**31**
Mine Gold recovery	*percent*	**81%**	**83%**	**87%**
Mine Silver recovery	*percent*	**71%**	**72%**	**62%**
Milled	*thousands of tonnes*	**74**	**146**	**274**
Mine development, preparation and exploration	*meters*	**1,131**	**2,225**	**4,391**
Mine Operating Cost per tonne milled	*US dollars/tonne*	**52**	**50**	**39**
Mine Operating Cost per Equivalent Ounce	*US dollars/ounces*	**847**	**699**	**577**
Number of employees and contractors at minesite		**303**	**303**	**288**

During the quarter ended July 31, 2011, the mill operated at a rate of approximately 814 milled tonnes/calendar day. Gold and silver grades were 1.7 g/t and 35 g/t, respectively, compared to prior quarter grades of 2.3 g/t and 45 g/t. Overall equivalent gold production from the mine of 4,800 ounces was lower than the previous quarter production of 6,300 ounces due mainly to the inferior ore grades mentioned above and slightly reduced recovery rates of 81% for the quarter compared to 85% for the previous quarter ended April 30, 2011. Overall metal production, including 2,000 ounces from purchased concentrate, was 6,800 ounces.

Production costs of the mine for the current quarter, excluding purchased concentrate, were US$847/EqOz. This is significantly higher than the average for the twelve months ended January 31, 2011 which was US$577/EqOz. The cost was also much higher than the previous quarter amount of $522/EqOz due to mainly to poor ore grades and recovery levels. Despite the Company's cost saving measures implemented at the mine level, operating costs have increased to US$52/t compared to the cost per tonne of US$39/t for the twelve month period ended January 31, 2011 and US$46/t for the prior quarter, due mainly to the increase in the main mine operating costs, including the cost of labour, power, fuel and chemicals and to more conservative allocation of underground mining costs to operations from capital development in areas that include more stoping activity. The mine has, during the current year, created many more mineable ore zones causing management to reassess much of the development activity as mineable ores and, thereby, increasing overall mining costs. The offset has been a decrease in mine development capital costs. The mine plan has been developed to ensure the mine is properly developed and mined so as to ensure a constant supply of ore in accordance with currently planned production capacity and ore grades. Changes to the plan that may involve increased production and capital investment are continually being assessed by Starcore management. Currently, the Company is continuing underground exploration in order to identify higher grade ore zones and has allocated a higher budget to support year long exploration, exceeding 11,000 metres of exploration drilling for the 2011 calendar year.

During the quarter ended July 31, 2011, the Company incurred approximately US$1,163 in mine capital expenditures, which includes mine development drifting and drilling, machinery and equipment leases and purchases and construction and tailings dam remediation, compared to US$1,268 in the prior quarter.

In addition to the Company's mining operations at San Martin, Starcore has agreements to purchase concentrate ore and charges a processing and marketing fee as a reduction of purchase price paid based on assays of the concentrate. This agreement is not binding and may be cancelled or renegotiated based on changing operating conditions. Until November 2010, the purchased concentrate had been reduced significantly for eight quarters due to production stoppage at one of the mines that provided the majority of the purchased concentrate. In December 2010, purchased concentrate levels returned to normal levels due to the resumption of activities at the La Guitarra mine owned by Silvermex Resources Inc.

Sales of metals produced by the milled ore from the mine, along with purchased ore concentrate, in the July 31, 2011 quarter of operations approximated 3,967 ounces of gold and 97,853 ounces of silver sold at average prices in the period of US$1,532 and US$37 per ounce, respectively. For the year ended July 31, 2011, metal sales of approximately 20,002 ounces of gold and 425,414 ounces of silver sold at average prices of US$1,308 per ounce and US$32 per ounce respectively.

The gold average price realized, however, is effectively reduced compared to market prices, due to the sale of 3,415 ounces of gold for the three months and 13,424 ounces of gold for the year ended July 31, 2011, pursuant to existing gold sales contracts which are fixed at US$731 per ounce, payable based on the month end London Metals Exchange spot gold price. The losses realized on these gold sales contracts, reported separately on the Company's statement of operations, amounted to $2,795 (US$2,791) for the three months and $9,184 (US$9,171) for the year ended July 31, 2011. The Company has forward sales remaining at July 31, 2011, 2011 of 21,343 ounces at the rate of approximately 1,186 ounces per month until January 31, 2013. The net unrealized gain / (loss) in the carrying value of these remaining contracts is $1,303 for the quarter and $(3,357) for the year ended July 31, 2011, and is included in "Other Items" in the statement of operations.

4.2 Property Activity

San Martin properties – Queretaro, Mexico

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

David Gunning, P.Eng., a director of the Company and Chief Operating Officer, is the Company's qualified person under NI 43-101, and has reviewed and approved the scientific and technical disclosure on the San Martin Mine disclosed in this MD&A.

4.3 Results of Operations

The Company recorded net loss for the year ended July 31, 2011 of $4,023 as compared with $3,728 for the year ended July 31, 2010. The details of the Company's operating results and related revenues and expenses are as follows:

For the year ended July 31,	2011	2010	Variance
Revenues			
Mined ore	$ **29,413**	$ 22,046	$ **7,367**
Purchased ore	**10,052**	1,155	**8,897**
	39,465	23,201	**16,264**
Cost of Sales			
Mined Ore	**13,415**	10,728	**2,687**
Purchased ore	**9,752**	1,054	**8,698**
Reclamation and closure	**153**	(134)	**287**
Amortization and depletion	**2,344**	2,117	**227**
	(25,664)	(13,765)	**(11,899)**
Earnings from mining operations	**13,801**	9,436	**4,365**
Administrative Expenses			
Amortization	**35**	47	**(12)**
Stock-based compensation	**156**	379	**(223)**
Interest on long-term debt	**189**	282	**(93)**
Accretion on long-term debt	**90**	148	**(58)**
Financing fees	**50**	52	**(2)**
Professional and consulting fees	**432**	309	**123**
Management fees and salary	**421**	436	**(15)**
Office, travel and administration	**574**	870	**(296)**
Shareholder relations	**234**	240	**(6)**
Transfer agent and regulatory fees	**52**	35	**17**
	(2,233)	(2,798)	**565**
Income before other income (expense) and taxes	**11,568**	6,638	**4,930**
Other income (expense)			
Foreign exchange gain (loss)	**(210)**	(43)	**(167)**
Investment and interest income	**-**	4	**(4)**
Impairment	**(300)**	-	**(300)**
Write-down of equipment	**(179)**	-	**(179)**
Write-down of mineral property	**-**	(806)	**806**
Net realized and unrealized gain (loss) on forward sales contracts	**(12,541)**	(9,873)	**(2,668)**
Current income taxes	**(3,049)**	(1,662)	**(1,387)**
Future income tax recovery	**688**	2,014	**(1,326)**
Net income (loss) for the period	$ **(4,023)**	$ (3,728)	$ **(295)**

Revenues included sales of gold and silver at average monthly market prices and based on gold sales contracts as discussed under *section 4.1 - "production"* above. The cost of sales above includes non-cash expenses for the accretion of the reclamation obligation of $153 and amortization and depletion of $2,344 which is calculated based on the units of production from the mine over the expected mine production as a denominator. This calculation is based solely on the San Martin mine proven and probable reserves and a percentage of inferred resources in accordance with the Company's policy of recognizing the value of expected Resources which will be converted to Proven and Probable Reserves, as assessed by management.

The year of operations to July 31, 2011, produced earnings from mine operations of $13,801 compared to $9,436 for the year ended July 31, 2010. While average gold ore grades 2.08 g/t for the year ended July 31, 2011 was marginally lower than the comparative year where grades averaged 2.16 g/t, silver ore grades averaged 36 g/t for the year ended July 31, 2011 compared to 30 g/t for the comparative year. This, combined with higher metal prices and increased production levels for the year, resulted in higher revenue. Costs, for the year ended July 31, 2011, were higher at an average operating cost of US$634/EqOz compared to an average operating cost of US$541/EqOz in the year ended July 31, 2010. When combined with the increase in equivalent ounces produced, the mined ore costs reported were $2,687 higher at $13,415 as compared to the year ended July 31, 2010. Also included in mined ore costs in the current year is non-cash stock based compensation expense of $78 for the period ended July 31, 2011 compared to $78 for the year ended July 31, 2010. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. In addition, the Company realized a profit of $300 from the purchase and sale of concentrate ore and an increase in gross revenue of $10,052 and in cost of sales of $9,752. This varies significantly from the prior year due to the resumption of purchasing concentrate, as explained above in *section 4.1 - "production"*.

Corporate administrative expenses for the year ended July 31, 2011, resulted in the following significant changes from the year ended July 31, 2010:

- Interest expense on long term debt decreased by $93 to $189 due to lower average debt outstanding in the year;
- Stock-based compensation decreased by $223 as a result of the vesting of options granted during the year ended July 31, 2010 and the year ended July 31, 2011. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant;
- Professional and consulting fees increased by $123 to $432 due to the use of corporate COO in lieu of mine management, which is classified as a corporate cost;
- Office, travel and administration decreased by $296 to $574 due mainly to management efforts to decrease corporate expenditures and travel;
- Foreign exchange loss increased by $167 to a loss of $210 for the year ended July 31, 2011 due to the strengthening of the MXN peso in relation to the US$, the functional currency of the mining operations;
- Current income tax expense of $3,049 and future income recovery of $688include non-cash adjustments at the consolidation of the entities to account for differences between the tax and the accounting base of assets and liabilities. Taxes payable by the Company are subject to Mexican tax laws which are changing. These estimates reflect the best estimate of tax liability by the Company based on the existing interpretation of these laws;
- Impairment of $300 resulted from the acquisition of an entity that has significant Mexican tax assets. The Company acquired the entity for $300. During the year ended July 31, 2011, the net assets acquired were deemed to be impaired by management.

The net realized and unrealized loss on forward sales contracts of $12,541 is due to the increase in gold prices from US$1,180 at July 31, 2010 to US$1,621, at July 31, 2011. As the Company has consistently settled the obligation through the payment of cash, with the view that this is the more cost effective method of settlement, these gold sales contracts meet the definition of derivatives and changes in market value are recorded in income as they occur. The effect on the net income for the year ended July 31, 2011 was to record a loss for the unrealized forward contracts outstanding as at that date (21,343 ounces to January 31, 2013 settled at US$731 per ounce), net of the future tax benefit.

Cash flows from operating activities were $2,125 during the year ended July 31, 2011, compared to $3,540 for the year ended July 31, 2010. The effect on cash provided by operations, including increased in earnings from mining operations as discussed above, was reduced by an increase in amounts paid to settle the Company's forward contract obligations. Cash flows from operating activities were determined by removing non-cash expenses from the net income and adjusting for non-cash working capital amounts. Overall cash decreased during the year ended July 31, 2011 by $112 compared to a decrease of $194 in the comparative year ended July 31, 2010.

Investor Relations Activities

During the year ended July 31, 2011, the Company responded directly to investor inquiries.

Financings, Principal Purposes & Milestones

During the year ended July 31, 2011, the Company completed a non-brokered financing for proceeds of $2,543. The financing was in the form of 10,170,905 Units at $0.11 per Unit for proceeds of $1,119, and 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 on June 3, 2011. Each Unit is comprised of one common share and one-half of one transferable share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at $0.15 to April 7, 2013.

Finders' fees applied in this transaction in the form of a cash commission of $148 and 2,147,910 non-transferable Agent Warrants.

5. Summary of Quarterly Results

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

	Q4 31-Jul-11	Q3 30-Apr-11	Q2 31-Jan-11	Q1 31-Oct-10	Q4 31-Jul-10	Q3 30-Apr-10	Q2 31-Jan-10	Q1 31-Oct-09
Total Revenue	$ 9,501	$ 13,859	$ 9,655	$ 6,450	$ 5,402	$ 5,933	$ 6,039	$ 5,826
Earnings from mining operations	$ 2,557	$ 5,177	$ 3,402	$ 2,665	$ 1,981	$ 1,931	$ 2,876	$ 2,647
Net Income (loss)	$ (1,150)	$ (966)	$ 1,454	$ (3,361)	$ 707	$ (2,753)	$ (11)	$ (1,671)
Per share – basic	$ (0.01)	$ (0.01)	$ 0.02	$ (0.04)	$ 0.01	$ (0.03)	$ (0.00)	$ (0.03)
Per share – diluted	$ (0.01)	$ (0.01)	$ 0.01	$ (0.04)	$ 0.01	$ (0.03)	$ (0.00)	$ (0.03)

Discussion

The Company reports loss for the quarter of $1,150 compared to an income of $707 in the comparative quarter ended July 31, 2010. The earnings from mining operations were increased during the current quarter due to higher metal prices in the quarter compared to the prior year. While average gold ore grades of 1.72 g/t for the three months ended July 31, 2011 was marginally lower than the comparative period where grades averaged 1.95 g/t, silver ore grades averaged 35 g/t for the three months ended July 31, 2011 compared to 29 g/t for the comparative period. This, combined with higher metal prices and increased production levels for the quarter, resulted in higher revenues. Revenue also increased substantially due to the sale of metal produced from purchased concentrate. Earnings from mining operations decreased substantially in this quarter to $2,557 from the prior quarter of $5,177 despite higher metal production and sales prices, due to the increase in costs for the three months ended July 31, 2011, at an average operating cost of US$847/EqOz compared to an average operating cost of US$630/EqOz in the three months ended July 31, 2010. For more detailed discussion on the quarterly production results and financial results for the quarter ended July 31, 2011, please refer to *Sections 4.1 and 4.3 under "Results of Operations"*.

6. Liquidity, Commitments and Going Concern

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

The Company's continued existence as a going concern is dependent upon its ability to continue profitable operations. During the year ended July 31, 2011, the cash flow generated from operations and from share issuances exceeded by cash used in repaying the loan payable and in investing activities by $112 bringing the Company's cash balance to $712 with a working capital deficiency of $13,187. While the Company's financial statements have been prepared in accordance with the Canadian GAAP applicable to a going concern, the adverse conditions below cast significant doubt as to the Company's ability to continue as a going concern should the loan be immediately payable (see below). In addition, the ability of the Company to generate sufficient cash flows to continue as a going concern is dependent upon many factors including, but not limited to, sufficient ore grade, ore production at the San Martin mine, control of mine production costs, administrative costs and tax costs and upon the market price of metals. Cash flows may also be affected by the ability of the Company to reduce capital expenditures, including mine development, or to restructure debt payments. The Company may also generate cash from future debt or equity financings, however, depending on market conditions, there is no assurance that such financings will be available to the Company.

To date, the Company has made all debt, interest payments and forward contract sales payments due under the Agreement with Investec, as required by the Agreement. Investec has informed the Company that a triggering event has occurred under the Agreement due to the fact that the Company has not met metal production targets outlined in the original Development Plan dated January 31, 2007. Under the Agreement, a triggering event, unremedied, may lead to a default which may result in Investec taking additional measures to perform ongoing detailed review of mining operations and to control, in conjunction with the Company's management, mine operations and financial matters, including joint control of working capital accounts. Additionally, as at July 31, 2011 and 2010, the Company failed to meet a debt covenant which requires that the current ratio (current assets compared to current liabilities) not fall below 110%. In accordance with reporting requirements, the Company notified Investec and has taken steps to rectify the default. The Company continues to work closely with Investec in providing technical and financial information as requested in order to facilitate the process for Investec to gain comfort with the mining operations and resolve their concerns. Management has reclassified the Loan as current on the balance sheet to conform to the requirements of EIC-122 and EIC-59. This reclassification does not affect the repayment schedule of the Loan as the Company has not been informed by Investec that the repayment schedule to January 31, 2013 has changed. Management believes that the Company will continue to make Loan principal, interest and forward contract payments in accordance with the requirements of the Agreement and is working with the cooperation of Investec to resolve any issues with the Agreement.

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

The Company has the following commitments:

a) A term of the Loan requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2011, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at July 31, 2011, is approximately US$650 in accordance with the Loan repayment schedule. The Company used all but $49 of this account to fund loan principal payments during the year ended July 31, 2008. The Company is required to refund the DSRA as soon as excess operating funds are available from mine operations. The principal due over the next twelve months ended July 31, 2012 is $1,988 and is in addition to the funding of the DSRA.

b) In addition to funding of the DSRA account, as stated above, principal due over future fiscal years are as follows:

Principal due for the fiscal year ended:		
July 31, 2012	**$**	**1,988**
2013		**1,366**
	$	**3,354**

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

d) The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 21,343 ounces to January 31, 2013, as at July 31, 2011 was negative US$19,235 (July 31, 2010 - US$15,883) based on a gold value of US$1,621 per ounce (July 31, 2010 – US$1,180).

Future obligations due at July 31,	2011	2012	2013	2014	2015 and beyond
Accounts Payable and accrued liabilities	$ 6,372	$ -	$ -	$ -	$ -
Note payable	100	-	-	-	-
Loan payable *	3,111	-	-	-	-
Forward contract obligations	11,137	7,242	-	-	-
Reclamation and closure obligations	-	-	-	-	1,473
Other long-term liabilities	-	-	-	-	2,632

*Loan payable is shown as current *(see Section 2)*, however, payment schedule is currently to January 2013 as shown above

7. Capital Resources

The capital resources of the Company are the mining interests, plant and equipment, with an amortized historical cost of $39,104 as at July 31, 2011. The Company is committed to further expenditures of capital required to maintain and to further develop the San Martin mine which management believes will be funded directly from the cash flow of the mine.

8. Off Balance Sheet Arrangements

The Company has no off balance sheet transactions.

9. Transactions with Related Parties

There were no material reportable related party transactions.

10. Fourth Quarter

Due to mine operating activity upon the acquisition of the San Martin mine discussed throughout this MD&A and as detailed in Section 4.1, the operations and activities are similar to previous quarters.

11. Proposed Transactions

N/A

12. Critical Accounting Estimates

The financial statements of the Company have been prepared in accordance with Canadian GAAP.

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

- The treatment of mine development costs as either an asset or an expense;
- Whether long-lived assets are impaired, and if so, estimates of the fair value of those assets and any corresponding impairment charge;
- The ability to realize or record future income tax assets and liabilities;
- The useful lives of long-lived assets and the measurement of amortization;
- The fair value of asset retirement obligations;
- The likelihood of loss contingencies occurring and the amount of any potential loss;
- The value of stock-based compensation expense
- Whether investments are impaired; and
- The amount of stock option expense.
- Financial instruments

As the estimation process is inherently uncertain, actual future outcomes could differ from present estimates and assumptions, potentially having material future effects on the financial statements. The accounting policies of the Company as presented in notes 2, 9 and 13 of the Company's July 31, 2011 audited consolidated financial statements should be reviewed in conjunction with the critical estimates identified by management above.

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

Mining interests, plant and equipment

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

Costs related to property acquisitions are capitalized. When it is determined that a property is not economically viable, the capitalized costs are written off.

Mining expenditures incurred either to develop new ore bodies or to develop mine areas in advance of current production are capitalized. Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be continued. Mine development costs incurred to maintain current production are included in operations. Exploration costs relating to the current mine in production are expensed to net income as incurred due to the immediate exploitation of these areas or an immediate determination that they are not exploitable.

Upon sale or abandonment, the cost of the property and equipment and related accumulated depreciation or depletion, are removed from the accounts and any gains or losses thereon are included in operations.

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

Reclamation and closure cost obligations

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

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

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

Income taxes

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

Stock-based compensation

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

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

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

Forward contract obligations

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. As the Company has consistently settled the obligation through the payment of cash, with the view that this is more cost effective than the physical delivery of gold, these gold contracts meet the definition of derivatives and classified as held for trading. As a result of this classification under Canadian GAAP, changes in market value are recorded in income as they occur. The fair value of the remaining gold sales contracts for the sale of 21,343 ounces to January 31, 2013, as at July 31, 2011 was negative US$19,235 (July 31, 2010 – US$15,883) based on a gold value of US$1,621 per ounce (July 31, 2010 – US$1,180). Changes in these assumptions can materially affect the fair value estimate.

13. International Financial Reporting Standards ("IFRS")

Canadian publicly accountable enterprises will be required to adopt IFRS in replacement of Canadian GAAP on for year ends beginning on or after January 1, 2011. This transition is effective, and will require the Company to present its financial statements under IFRS, starting with its fiscal quarter end on October 31, 2011, with restated comparative information for the comparative quarter ended October 31, 2010, also under IFRS.

Management of the IFRS Convergence Project

We are evaluating our overall readiness to transition from Canadian GAAP to IFRS including the readiness of our staff, directors and auditors.

The IFRS convergence project consists of three primary phases:

Phase 1: Initial Scoping and Impact Assessment Analysis: to identify areas that will be impacted by the transition to IFRS. This phase is currently in progress.

Phase 2: Evaluation and Design: to identify changes required to existing accounting policies and information systems, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statements.

Phase 3: Implementation and Review: to execute the changes to information systems and business processes. This will involve the collection of financial information necessary to compile IFRS compliant financial statements, including embedding IFRS principles in business processes, and audit committee review and approval of the financial statements.

IFRS 1 – First Time Adoption of International Financial Reporting Standards

IFRS 1 sets forth guidance for the initial adoption of IFRS. Commencing for the period ending on October 31, 2011, being the first quarter of the fiscal year, we will restate our comparative fiscal 2011 financial statements for annual and interim periods to be consistent with IFRS. In addition, we will reconcile equity and net earnings from the then-previously reported fiscal 2011 Canadian GAAP amounts to the restated 2011 IFRS amounts. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity's first IFRS financial statements. This requires that an entity apply IFRS to its opening IFRS balance sheet as at August 1, 2010 (i.e. the balance sheet prepared at the beginning of the earliest comparative period presented in the entity's first IFRS financial statements). In the period leading up to the transition to IFRS, the Accounting Standards Board (the "AcSB") has issued accounting standards that are converged with IFRS, mitigating the impact of adopting IFRS at the mandatory transition date.

In preparation for the transition to IFRS, key members of the IFRS project team attended various seminars and information sessions and reviewed IFRS standards with a focus on identifying existing and emerging issues relating to the conversion to IFRS and ensuring their inclusion in the Company's preliminary conversion project scoping analysis. Based on those transition issues identified, the Company's IFRS project team has performed an evaluation of the impact of the adoption of IFRS on its financial statements, including the optional exemptions which may be elected by the Company under IFRS 1, the transitional standard addressing initial adoption of IFRS.

IFRS requires that first-time adopters to retrospectively apply all IFRS standards and interpretations in effect as at the first annual reporting date. IFRS 1 provides for certain mandatory exceptions and certain optional exemptions to this general principle.

The Company has determined that the IFRS 1 optional exemptions which are likely to be elected by the Company at the time of transition to IFRS on March 1, 2010 are those related to: business combinations; share-based payment transactions; leases; investments in subsidiaries; compound financial instruments; and decommissioning liabilities included in the cost of property, plant and equipment. The IFRS 1 elections relating to insurance contracts will not likely apply to the Company as it does not hold any insurance contracts. In addition, IFRS 1 elections relating to fair value as deemed cost or cumulative translation differences are not expected to be applied. The Company is currently completing its review of the applicability of remaining IFRS 1 elections and will continue to review the impacts of amendments to IFRS standards regarding its present position relating to the above elections prior to the adoption of IFRS, effective August 1, 2011.

In addition to the identification of IFRS 1 elections, the Company has identified potential transition differences existing between Canadian GAAP and IFRS standards at the date of this prospectus.

Financial Instruments

For IFRS, the measurement and allocation of fair values between the debt and equity components of compound financial instruments issued by the Company is performed differently from the pro-rata method applied under Canadian GAAP. Although the Company's election under IFRS relating to compound financial instruments will eliminate transition variances relating to those debt instruments fully repaid prior to the August 1, 2010, transition date, outstanding debt instruments and compound instruments denominated in foreign currencies will require retrospective restatement at the time of transition to IFRS. However, recent and proposed amendments to IFRS standards relating to financial instruments may materially impact the adjustments required. Therefore, the Company's determination of the reported value of the transition adjustments will be subject to its review of these amendments to IFRS standards.

Share-Based Payment Transactions

The Company issues stock-based awards in the form of stock options that vest and may be exercised 1/3 each 6 months. Under Canadian GAAP, the Company has elected to recognize the fair value of each tranche of the award, determined at the time of the grant, and reports a compensation expense separately over the term of its respective vesting period. The treatment of share-based payment transactions under IFRS 2, Share-Based Payments, is the same, except that the Company will also be required to include, in its fair value calculations, a time to expiry factor. Accordingly, there will be minimal difference to the expense recognized under IFRS as compared to Canadian GAAP. The adoption of IFRS 2 is not expected to have a material impact on the financial results or balance sheet of the Company.

Other accounting policies

The Company continues to evaluate the impact of IFRS adoption on other areas, such as the accounting for income taxes and decommissioning liabilities (asset retirement obligations), which may result in significant differences from current Canadian GAAP accounting policies.

14. Changes in Accounting Policies Including Initial Adoption

N/A

15. Financial and Other Instruments

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

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

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. At July 31, 2011 the company had the following financial assets and liabilities denominated in Canadian dollars (CDN) and denominated in Mexican Pesos:

	In '000 of CDN Dollars		In '000 of Mexican Pesos (MP)	
Cash and cash equivalents	$	186	MP	220
Other working capital amounts - net	$	1,283	MP	(21,297)
Long-term Liabilities	$	-	MP	30,675

At July 31, 2011, US dollar amounts were converted at a rate of $0.956 Canadian dollars to $1 US dollar and Mexican Pesos were converted at a rate of MP11.741 to $1 US Dollar.

The Loan agreement entered into on the Acquisition required that the Company enter into a forward sales agreement for the sale of 81,876 ounces of gold at a price of US$731 per ounce until January, 2013. These gold sales contracts meet the definition of derivatives because, although the obligation may be met by the physical delivery of gold, historically it has been more economical to settle these obligations with cash. The fair value of the remaining gold sales contracts for the sale of 21,343 ounces to January 31, 2013, as at July 31, 2011 was negative US$19,235 (July 31, 2010 - US$15,883) based on a gold value of US$1,621 per ounce (July 31, 2010 – US$1,180)

16. Other

15.1 Disclosure of Outstanding Share Capital as at October 24, 2011

	Number	Book Value
Common Shares	**105,808,970**	**$36,750**

During the year ended July 31, 2011, the Company granted directors, officers, employees and consultants' incentive stock options, entitling them to purchase up to 960,000 common shares at $0.15 per share for 5 years. During the year ended July 31, 2010, the Company granted directors, officers, employees and consultant's incentive stock options, entitling them to purchase up to 10,300,000 common shares at $0.15 and $0.21 per share for 5 years.

860,000 of these stock options were forfeited during the year ended July 31, 2010.

At July 31, 2011, there were 9,410,000 share purchase options outstanding, entitling the holders thereof the right to purchase one common share for each option held, as follows:

Number of Shares	Exercisable	Exercise Price	Expiry Date
7,050,000	7,050,000	$0.15	November 9, 2014
1,000,000	1,000,000	$0.21	January 10, 2015
400,000	266,666	$0.15	March 26, 2015
750,000	250,000	$0.15	October 6, 2015
210,000	-	$0.15	May 6, 2016
9,410,000	**8,566,666**	**$0.16**	

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. 12,954,500 warrants with an average exercise price of $0.74 per warrant expired unexercised. Included in the expired warrants were 12,442,000 warrants exercisable at a price of Cdn$0.76 (or US$0.643) per share, issued pursuant to the Tranche A Loan financing with Investec; these expired unexercised on January 31, 2011.

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 to April 7, 2013 respectively. In conjunction with the financing, the Company issued 2,147,910 warrants to agents, exercisable at $0.15 until April 7, 2012.

At July 31, 2011 there were 32,830,995 share purchase warrants outstanding at an average exercise price of $0.30.

Subsequent to July 31, 2011, 250,000 stock options granted to an employee were forfeited upon his resignation and 425,000 shares were issued at $0.15 per share pursuant to the exercise of share purchase warrants

15.2 Disclosure Controls and Procedures

Disclosure Controls and Procedures

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

<u>Internal Controls Over Financial Reporting</u>

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

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

There has been no change in the Company's internal control over financial reporting during the Company's year ended July 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

<u>Limitations of Controls and Procedures</u>

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