MANAGEMENT DISCUSSION & ANALYSIS

For the year ended July 31, 2008

Directors and Officers as at October 23, 2008:

Directors:

Gary Arca
Robert Eadie
Gary Hawthorn
Charles Jeannes
Cory Kent
Juan Carlos Galvan Pastoriza
Arturo Prestamo
Ken Sumanik
Federico Villaseñor

Officers:

Chairman, President & Chief Executive Officer – Robert Eadie
Chief Financial Officer – Gary Arca
Corporate Secretary – Cory Kent

Contact Name:	Gary Arca
Contact e-mail address:	garca@starcore.com
TSX Symbol:	SAM

Form 51-102-F1

STARCORE INTERNATIONAL MINES LTD.

(formerly Starcore International Ventures Ltd.)

MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended July 31, 2008

1. Date of This Report

This MD&A is prepared as of October 23, 2008.

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, 2008. **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. Effective February 1, 2008, the Company changed its name to Starcore International Mines Ltd.

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, 2008		July 31, 2007		July 31, 2006
Revenues	**$**	**27,066**	$	18,499	$	-
Cost of Sales		**23,761**		12,324		-
Earnings from mining operations		**3,305**		6,175		-
Administrative Expenses		**4,280**		6,850		919
Loss before extraordinary items						
(i) Total loss	**$**	**2,567**	$	2,218	$	890
(ii) Loss per share - basic	**$**	**0.04**	$	0.06	$	0.07
(iii) Loss per share - diluted	**$**	**0.04**	$	0.06	$	0.07
Net loss						
(i) Total loss	**$**	**2,567**	$	2,218	$	890
(ii) Loss per share - basic	**$**	**0.04**	$	0.06	$	0.07
(iii) Loss per share - diluted	**$**	**0.04**	$	0.06		0.07
Total assets	**$**	**47,261**	$	50,109	$	8,700
Total long-term liabilities	**$**	**17,876**	$	18,903		-

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 hereto for the year ended July 31, 2008.

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 and Starcore is, through its wholly-owned subsidiary, the owner of producing mining assets in Mexico.

Under the terms of the Acquisition, Luismin operated the San Martin mine on behalf of the Company until January 31, 2008. The Company paid all costs incurred by Luismin plus fees for services and overhead. Also, the Company agreed to grant Goldcorp a security interest over the Bernal mining properties as collateral to ensure that Bernal maintains an agreement to sell all silver produced from the mine to Goldcorp until October, 2029, at the prevailing spot market rate at the time of sale.

A more detailed discussion of the Acquisition and related consideration, financing and allocation of purchase price can be found in the July 31, 2007 audited consolidated financial statements and management discussion and analysis of the Company which were filed on SEDAR on October 29, 2007.

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 three units under exploration, as well as an additional exploration 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 12 years based on conversion of known resources. Mining at San Martin over the past eight years has been at a rate of approximately 267,000/tonnes per year. Exploration is able to maintain approximately four years reserves replacing those mined with new reserves.

As of December 31, 2006, reserves and resources at San Martin as reported in "A Technical Review of the San Martin Project for Starcore International Ventures Ltd." dated September 27, 2006, and revised March 23, 2007, prepared by Watts, Griffis & McOuat Limited (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	320	3.26	33	34	340	41
Probable	713	3.85	48	88	1,100	110
Total Reserve	**1,033**			**122**	**1,440**	**151**
Resource:						
San Martin Mine						
Inferred	1,881	3.75	58	227	3,508	297
San Pedrito						
Inferred	1,125	0.63	221	23	7,994	183
Total Resource	**3,006**			**250**	**11,502**	**480**

- Total Proven and Probable Mineral Reserves estimated are 1,032,767 tonnes at a grade of 43 g Ag/t and 3.66 g Au/t, yielding approximately 44,574 kg of Ag and 3,784 kg of Au., using cut-off grades based on total operating costs of US$30.18/t and cut off values for silver of US$7.00 per troy ounce and for gold of US$450 per troy ounce;
- The total Inferred Mineral Resources estimated and not included in the Mineral Reserves stated above are about 1.88 million tonnes at an approximate grade of 60 g Ag/t and 3.75 g Au/t;
- In addition to the Mineral Reserves and Mineral Resources disclosed above, the total Inferred Mineral Resources estimated for San Pedrito are about 1.125 million tonnes at an approximate grade of 221 g Ag/t and 0.63 g Au/t; and
- 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. Management is currently updating the reserves and resources with a view to reporting the updated amounts by next quarter.

Production

The quarter ended July 31, 2008, represents the Company's sixth quarter of mining operations and San Martin's 15th year of production. Management of Luismin operated San Martin under an Interim Services Agreement ("ISA") to January 31, 2008. As at February 1, 2008 Starcore has assumed full responsibility for mine management, and all other activities required in the operation of the mine.

The following table is a summary of mine production statistics for the San Martin mine for the three and six months ended July 31, 2008 and the cumulative complete year completed January 31, 2008, since acquisition on February 1, 2007:

(Unaudited)	*Unit of measure*	**Actual results for 3 months ended July 31, 2008**	**Actual results for 6 months ended July 31, 2008**	**Actual results for 12 months ended January 31, 2008**
Production of Gold in Dore	*thousand ounces*	**5.0**	**9.1**	**24.1**
Production of Silver in Dore	*thousand ounces*	**41.9**	**72.1**	**213.1**
Equivalent ounces of Gold	*thousand ounces*	**5.8**	**10.45**	**28.2**
Silver to Gold Equivalency Ratio		**52:1**	**53:1**	**52:1**
Gold grade	*grams/tonne*	**2.73**	**2.45**	**3.23**
Silver grade	*grams/tonne*	**35**	**29**	**46**
Gold recovery	*percent*	**87**	**87**	**90**
Silver recovery	*percent*	**57**	**58**	**56**
Milled	*thousands of tonnes*	**65.3**	**132.4**	**258.1**
Mine development, preparation and exploration	*meters*	**1,232**	**2,480**	**5,350**
Operating Cost per tonne milled	*US dollars/tonne*	**39**	**36**	**33**
Operating Cost per Equivalent Ounce	*US dollarsounces*	**438**	**460**	**301**
Number of employees and contractors at minesite		**260**	**260**	**249**

During the quarter ended July 31, 2008, the mill operated at a capacity of approximately 718 milled tonnes/day, which has been consistent for the year. Gold and silver grades increased to 2.73 g/t and 35 g/t, respectively, from the prior quarter grades of 2.17 g/t and 24 g/t, but were still below the prior year's grades averaging 3.23 g/t and 46 g/t, respectively. Overall equivalent gold production was lower at 5,001 ounces, compared to the prior year's average of 7,050 ounces per quarter; however, production this quarter was higher than the previous quarter production of 4,100 ounces. The overall decrease is due to lower ore grades in the quarter. The lower ore grades resulted primarily from a temporary loss of access to ore bodies 30 to 31 as a result of redevelopment of the access ramp during November, December and January. The Company historically mined higher grade ore from these ore bodies and these ore bodies were back into full production by April for ore bodies 30 and 31 resulting in the higher ore grades in the current quarter.

As a result of the lower ore grade and increased milled ore production, production costs of the mine for the current quarter were higher at US$438/EqOz. from the average of US$301/EqOz. over the year ended January 31, 2008, but decreased from US$487/EqOz in the prior quarter. 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 over the next 3 years. The mine is meeting or exceeding targeted development meters in order to ensure future production. Changes to the plan that may involve increased production and capital investment are continually being assessed by Starcore management. Currently, the Company is continuing the development of Guadalupe vein (see Property Activity). Management expects the ore from this zone and of ore bodies 28 to 31, to be of a higher grade and, therefore, the Company should continue to increase metal production over the next quarters.

During the quarter ended July 31, 2008, the Company incurred approximately US$1,297 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$1,392 in the prior quarter. Additionally, for the year ended January 31, 2008, the Company incurred approximately US$4,094 in mine capital expenditures.

In addition to the Company's mining operations at San Martin, Starcore has agreements to purchase concentrate ore from two surrounding mines and charges a processing and marketing fee as a reduction of purchase price paid based on assays of the concentrate. These agreements are not binding and may be cancelled or renegotiated based on changing operating conditions.

Sales of Metal produced by the milled ore from the mine, along with purchased ore concentrate, over the July 31, 2008, quarter of operations approximated 5,900 ounces of gold and 154,000 ounces of silver sold at average prices in the period of US$783 and US$17.94 per ounce, respectively. The sales of metal over the year ended July 31, 2008 approximated

25,200 ounces of gold and 467,000 ounces of silver sold at average prices in the period of US$757 and US$14.45 per ounce, respectively. The gold average price realized was decreased in the annual period due to the sale of 13,415 ounces of gold 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 Company has forward sales remaining at July 31, 2008 of 61,770 ounces at the rate of approximately 1,135 ounces per month until January 31, 2013.

4.2 <u>Property Activity</u>

<u>San Martin properties – Queretaro, Mexico</u>

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 currently assessing the potential for further exploration and development of the San Martin properties. Exploration plans are continually being evaluated with a view to determining specific targets and an exploration budget.

The Company is continuing to develop and mine the Guadalupe vein at San Martin. Nine underground diamond drill holes (SM – 16 to – 24) have tested the down dip and strike extension of the structure. Four holes intersected the vein with economical values, as reported in the Company's news release dated March 25, 2008 and April 1, 2008. The cross sections and three dimensional models can be viewed at the Company's website at www.starcore.com.

<u>Mineral Property – Cerro de Dolores</u>

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

In order to exercise an initial option and acquire a 51% interest in the property, the Company must issue a total of 250,000 post consolidation common shares and incur US$1.4 million in exploration expenditures on the property over a four year period as follows:

- 100,000 common shares upon TSX Venture Exchange (the "Exchange") acceptance of the Agreement on June 23, 2004 (issued at $0.50);
- an additional 50,000 common shares (issued at $0.50) and US$300 in exploration expenditures on or before June 23, 2005 (incurred);
- an additional 100,000 common shares (issued at $0.52) and US$300 in exploration expenditures on or before June 23, 2008;
- an additional US$300 in exploration expenditures on or before June 23, 2009; and
- the final US$500 in exploration expenditures on or before June 23, 2010.

Proposed Exploration Program and Future Plans

As at July 31, 2008 the Company has incurred approximately US$475 in direct work expenditures on the property. At July 31, 2008, the Company was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp. No exploration costs were incurred during the year ended July 31, 2008 and $35 were incurred during the year ended July 31, 2007.

4.3 <u>Results of Operations</u>

The loss for the year ended July 31, 2008 was $2,674 as compared with a loss of $2,218 for the year ended July 31, 2007. The details of the Company's operating results and related revenues and expenses are as follows:

For the year ended July 31,		2008		2007		Variance
Revenues						
Mined ore	$	**16,545**	$	12,457	$	**4,088**
Purchased ore		**10,521**		6,042		**4,479**
		27,066		18,499		**8,567**
Cost of Sales						
Mined Ore		**11,258**		5,135		**6,123**
Purchased ore		**10,240**		5,753		**4,487**
Reclamation and closure		**123**		25		**98**
Amortization and depletion		**2,140**		1,411		**729**
		23,761		12,324		**11,437**
Earnings from mining operations		**3,305**		6,175		**(2,870)**
Administrative Expenses						
Amortization		**45**		26		**19**
Stock-based compensation		**843**		2,473		**(1,630)**
Interest on long-term debt		**766**		613		**153**
Financing fees		**-**		1,130		**(1,130)**
Accretion on long-term debt		**157**		78		**79**
Professional and consulting fees		**402**		400		**2**
Management fees and salary		**622**		296		**326**
Office, travel and miscellaneous		**875**		964		**(89)**
Shareholder relations		**531**		666		**(135)**
Transfer agent and regulatory fees		**39**		204		**(165)**
		4,280		6,850		**(2,570)**
Income (loss) before other income (expense) and taxes		**(975)**		(675)		**(300)**
Other income (expense)						
Foreign exchange		**(511)**		(58)		**(453)**
Investment and interest income		**138**		323		**(185)**
Write-off of mineral property		**-**		(239)		**239**
Current income taxes		**(137)**		(32)		**(105)**
Future income tax		**(1,082)**		(1,537)		**455**
Net income (loss) for the year	**$**	**(2,567)**	$	(2,218)	**$**	**(349)**

During the year ended July 31, 2008, the Company had earnings from mining operations of $3,305. Revenues included sales of gold and silver at spot market prices and based on gold sales contracts as discussed under *section 4.1 - "production"* above. The Company also earned a net profit of $281 from the purchase and sale of ore concentrate from surrounding mines. The cost of sales above includes non-cash costs for reclamation, amortization and depletion of $2,263 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 (excluding San Pedrito) 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.

Due to the acquisition of the San Martin mine on February 1, 2007, the Company's activities are significantly different from those of the comparative year ended July 31, 2007. During the year ended July 31, 2007, the Company had acquired San Martin and, in addition to twelve months of expenditures related only to corporate office activities, had incurred $1,121 of San Martin acquisition costs. Operations included only two quarters of mine operations at July 31, 2007, compared to one year to July 31, 2008. The two quarters of operations to July 31, 2007, produced earnings from mine operations of $6,175 compared to $3,305 for the year ended July 31, 2008. This was due mainly to significantly higher ore grades averaging 3.93 g/t gold and 58 g/t of silver at an average operating cost of US$244/EqOz compared to grades of approximately 2.45 g/t and 29 g/t, respectively, in the comparative six month period ended July 31, 2008, at an average operating cost of US$460/EqOz. The lower earnings from mining operations also reflect the general trend of increased mining costs in the industry due to the higher cost of electricity, fuel, chemicals, equipment replacement parts, mine infrastructure costs and labour and related social costs. Also included in mined ore costs in the current period is non-cash stock based compensation expense of $438 for the period ended July 31, 2008 compared to $nil for the period ended July 31, 2007. This amount reflects the fair value calculated of the stock options granted and vested during the period. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant.

Cost increases for the year ended July 31, 2008 related to the ongoing operational activity of the Company due to the acquisition of the mining operation include:

- Professional and consulting fees of $402 and management fees and salary of $622, increases of $2 and $326, respectively, due to the employment of services of additional officers as well as the use of consultants since the commencement of mine operations;
- Interest expense on long term debt increased by $153 to $766 as July 31, 2007 included only six months of interest on US$13million of debt compared to one year of interest on an average balance of approximately US$10million of debt for the year ended July 31, 2008, also at a lower interest rate. Accretion of long-term debt increased by $79 to $157 for the same reason;
- Foreign exchange losses increased by $453 for the year ended July 31, 2008 due to the devaluation of the US dollar, the functional currency of the mining operations, as compared to the Mexican peso on which the majority of mining costs are based; and
- Current and future income taxes of $1,219, which include 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.

Management of the Company was able to make significant cost savings in corporate administrative expenses to partially counter the lower earnings being realized from mining operations for the year ended July 31, 2008, resulting in the following significant changes from the year ended July 31, 2007:

- Office, travel and administration expenses of $875, a decrease of $89 over the prior year. These costs for the year ended July 31, 2007, however, include six months administration fees to Luismin relating to management of the mine under the terms of the acquisition agreement, which is comparable to the six months of fees to January, 2008 included in the expenses for the year ended July 31, 2008, after which the Company assumed full responsibility for mine administration. Given that this expense includes a full year of mine administration, the decrease is more significant than indicated;
- Shareholder relations of $531, a decrease of $135 due to higher promotional activities, conferences and travel incurred due to the acquisition of the mine in 2007;
- Transfer agent and filing fees decreased $165 to $39 over the year ended July 31, 2008 due to the filing costs on acquisition of the Bernal and related financings and due to the filing costs associated with moving to Tier 1of the TSX Exchange which occurred in the prior year;
- Financing fees decreased by $1,130 to $nil as the complete cost of acquisition financing was expensed in the period ended July 31, 2007;
- Investment and interest income of $138, a decrease of $185 as the Company had significant funds on hand at July 31, 2007 related to the acquisition of Bernal compared to excess cash balances on hand for the current year.

The next most significant administrative expense was the non-cash stock based compensation expense of $843 for the year ended July 31, 2008, representing a decrease of $1,630 over the comparative year. This amount reflects the fair value calculated of the stock options granted and vested during the year. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. The decrease over the prior year was due mainly to the accelerated expense recognized for the period ended July 31, 2007, based on the fair value of 8,605,822 options granted on December 20, 2006, January 22, 2007, February 2, 2007 and July 10, 2007, and 1,250,000 options granted on October 24, 2007 which were estimated to be $5,209 and $576 respectively amortized over 18 months in accordance with Company vesting policy.

Cash flow from operating activities was $3,657 during the year ended July 31, 2008, compared to $3,521 for the year ended July 31, 2007. While cash flow from operating activities increased in the period, the prior year amount included only six months of mining operations compared to one year of mining operations in the current year. The current year cash flow is significantly lower in comparison due to the lower ore grades and higher costs discussed above. Cash flow from operating activities is determined by removing non-cash expenses from the net loss and adjusting for non-cash working capital amounts. Overall cash and equivalents decreased during the year ended July 31, 2008 by $6,182 due mainly to the payment of US$4,032 of debt principal and the investment in mining interest, plant and equipment and in mineral properties of $5,585.

Investor Relations Activities

During the year ended July 31, 2008, the Company directly responded to investor inquiries.

Financings, Principal Purposes & Milestones

During the year ended July 31, 2008, the Company issued 100,000 common shares at a fair value of $0.52 pursuant to the Cerro de Dolores property option agreement.

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-08	Q3 30-Apr-08	Q2 31-Jan-08	Q1 31-Oct-07	Q4 31-Jul-07	Q3 30-Apr-07	Q2 31-Jan-07	Q1 31-Oct-06
Total Revenue	$ 6,999	$ 7,218	$ 5,224	$ 7,625	$ 9,232	$ 9,267	$ -	$ -
Earnings from mining operations	$ 305	$ 1,010	$ 48	$ 1,942	$ 3,121	$ 3,054	$ -	$ -
Net Income (loss):								
Total	$ (654)	$ 218	$ (1,491)	$ (640)	$ 352	$ (1,680)	$ (782)	$ (108)
Per share – basic and diluted	$ (0.02)	$ 0.00	$ (0.02)	$ (0.01)	$ 0.01	$ (0.03)	$ (0.06)	$ (0.01)

Discussion

The Company reports a loss for the quarter of $654 compared to income in the prior quarter ended April 30, 2008 of $218. The decrease in quarterly income was due to higher mine costs in the quarter coupled with higher foreign exchange losses due to the weakening of the US dollar against the Mexican peso, on which mine costs are based. Overall results for the quarter are trending upward mainly due to the reduction of administrative expenses, including lower stock based compensation costs of $94 compared to $260 in the prior quarter. The earnings from mining operations were down due due mainly to higher production costs in the period, despite higher ore grades as compared to the prior quarter. For more detailed discussion on the quarterly production results and financial results for the year ended July 31, 2008, 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 first generated in 2007 at its San Martin Mine. During the year ended July 31, 2008, the cash used in repaying the loan payable and in investing activities exceeded the cash flow generated from operations by $6,182 bringing the Company's cash balance down to $2,890 and working capital to $1,035. 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, increased ore production and continued delivery of purchased concentrate 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.

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 financing (note 10) requires that the Company fund a Debt Service Reserve Account ("DSRA") at July 31, 2008, which will maintain a balance equal to six months loan principal and interest at all times. The required funding commitment at July 31, 2008, is approximately US$1,100 in accordance with the Loan repayment schedule. The Company has agreed with the lender to maintain a balance of US$500.

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, 2009	$	**2,334**
2010		**2,000**
2011		**1,266**
2012		**2,132**
2013		**1,469**
	$	**9,201**

c) In order to exercise an initial option and acquire a 51% interest in Cerro de Dolores, the Company must issue a total of 250,000 common shares and incur US$1.4 million in exploration expenditures on the property over a four year period as follows:

- 100,000 common shares upon TSX Venture Exchange (the "Exchange") acceptance of the Agreement on June 23, 2004 (issued at $0.50);
- an additional 50,000 common shares (issued at $0.50) and US$300 in exploration expenditures on or before June 23, 2005 (incurred);
- an additional 100,000 common shares (issued at $0.52) and US$300 in exploration expenditures on or before June 23, 2008;
- an additional US$300 in exploration expenditures on or before June 23, 2009; and
- the final US$500 in exploration expenditures on or before June 23, 2010.

At July 31, 2008, the Company was in default of exploration expenditure requirements under the Agreement and is currently renegotiating with Goldcorp.

d) As at July 31, 2008, the Company has management contracts to officers and directors totaling $300 per year, payable monthly, expiring in January, 2013.

7. Capital Resources

The capital resources of the Company are the mining interests, plant and equipment as well as the mineral properties, with amortized historical costs of $38,294 and $806 as at July 31, 2008, respectively. 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. In addition, the Company is committed to capital expenditures required to maintain Mineral properties in good standing, as detailed in *Section 4*.2.

8. Off Balance Sheet Arrangements

In conjunction with the Acquisition, the Company has agreed to grant Goldcorp Inc. a security interest over the Bernal mining properties as collateral to ensure that Bernal maintains an agreement to sell all silver produced from the mine to Goldcorp Inc. until October, 2029, at the prevailing spot market rate at the time of the silver sale.

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 are excluded from the definition of derivatives because the obligation will be met by the physical delivery of gold and the Company's practices, productive capacity and delivery intentions are consistent with the definition of normal sales contracts in accordance with the Company's Revenue Recognition Policy in Note 2 of the Company's annual audited consolidated financial statements at July 31, 2008. The fair value of the remaining gold sales contracts as at July 31, 2008 for the sale of 61,770 ounces to January 31, 2013, was negative US$14,893 (2007 - US$1,852) based on a gold value of US$929 per ounce (2007 – US$667).

9. Transactions with Related Parties

There were no material reportable Related Party transactions.

10. Fourth Quarter

The fourth quarter results differ significantly from prior year quarters but are comparable to the previous three quarters due to mine operating activity upon the acquisition of the San Martin mine discussed throughout this MD&A. While mine operating activity is comparable to the prior four quarters, ending January 31, 2008, the acquisition of the mining operations, as detailed in Section 4.1, resulted in significant operating expenses unique to these quarters.

11. Critical Accounting Estimates

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Pursuant to the Acquisition of Bernal, the Company has adopted many accounting policies which were not formerly applicable or material to report, which are presented in notes 2, 3, 10 and 13 of the Company's July 31, 2008 audited consolidated financial statements.

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 deferred income tax assets;
- 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;
- 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, 3, 10 and 13 of the Company's July 31, 2008 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 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.

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 completion of 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.

12. Changes in Accounting Policies Including Initial Adoption

There have been no changes or initial adoptions of accounting policies in the year ended July 31, 2008

13. 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, 2008 the company had the following financial assets and liabilities denominated in US dollars and denominated in Mexican Pesos:

	In ‘000 of CDN Dollars	In ‘000 of Mexican Pesos (MP)
Cash and equivalents	$ 1,739	MP 17,559
Other working capital amounts - net	$ 38	MP (2,099)
Long-term Liabilities	$ -	MP 98,492

At July 31, 2008 US dollar amounts were converted at a rate of $1.0257 Canadian dollars to 1 US dollar and Mexican Pesos were converted at a rate of MP10.0362 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 are excluded from the definition of derivatives because the obligation will be met by the physical delivery of gold and the Company’s practices, productive capacity and delivery intentions are consistent with the definition of normal sales contracts in accordance with the Company’s Revenue Recognition Policy. The fair value of the remaining gold sales contracts for the sale of 61,770 ounces to January 31, 2013, as at July 31, 2008 was negative US$14,893 (2007 - US$1,852) based on a gold value of US$929 per ounce (2007 – US$667).

14. Other

14.1 Disclosure of Outstanding Share Capital

	Number	Book Value
Common Shares	**60,690,789**	**$33,318**

There were 7,869,822 incentive stock options outstanding as at July 31, 2008 with an average exercise price of $0.84 per stock option and with expiry dates from March, 2010, to October, 2012.

There were 37,238,857 share purchase warrants outstanding as at July 31, 2008 with an average exercise price of $0.80 per warrant and with expiry dates from August 2009 to February, 2012, with a possibility of the Loan Tranche B warrants being extended to February, 2013. During the year ended July 31, 2008, 879,840 agent warrants expired unexercised and 1,200,000 warrants were cancelled by the holder.

14.2 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.

Internal Controls Over Financial Reporting

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 generally accepted accounting principles (“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 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 quarter ended July 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

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.

14.3 Additional disclosure

The Company capitalizes all expenditures relating to the exploration of its mineral properties. Details of mineral properties and deferred exploration costs for the properties are as follows:

	July 31, 2008	July 31, 2007
Cerro de Dolores - Actual Expenditures		
Acquisition costs	**$ 177**	$ 125
Assaying & sampling	**53**	53
Consulting fees (Geological & Engineering)	**168**	168
Drilling	**113**	113
Field work, equipment & rental	**31**	31
General & admin	**88**	88
Labour	**28**	28
Legal fees, licenses, maps & reports	**8**	8
Property taxes	**18**	18
Road construction	**33**	33
Site visits	**51**	51
Travel & transportation	**38**	38
Total Mineral Properties and Deferred Exploration Costs	**$ 806**	**$ 754**