
ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7

Phone: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

AUDITORS' REPORT

To the Shareholders of
Orko Silver Corp. (formerly Orko Gold Corporation)
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Orko Silver Corp. (formerly Orko Gold Corporation) as at October 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended October 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended October 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

January 9, 2007 except as to Note 14(d) which is as of February 8, 2007

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****CONSOLIDATED BALANCE SHEETS****AS AT OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

	2006	(Restated - Note 15) 2005
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	215,748	229,647
Short-term investments	3,000,000	—
Receivables	85,782	8,784
Due from related parties (Note 11(a))	—	13,265
Prepaid expense	19,484	—
	3,321,014	251,696
MARKETABLE SECURITIES	—	10,439
EQUIPMENT (Note 3)	16,075	4,455
MINERAL PROPERTIES (Note 4)	1,287,163	42,000
	4,624,252	308,590
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LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	525,895	327,485
Due to related parties (Note 11(b))	165,805	3,585
	691,700	331,070
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SHAREHOLDERS' EQUITY (DEFICIT)		
SHARE CAPITAL (Note 5)	14,172,827	6,888,159
CONTRIBUTED SURPLUS (Note 6)	3,940,568	204,461
DEFICIT	(14,180,843)	(7,115,100)
	3,932,552	(22,480)
	4,624,252	308,590
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NATURE AND CONTINUANCE OF OPERATIONS (Note 1)

COMMITMENT (Note 13)

SUBSEQUENT EVENTS (Note 14)

Approved on behalf of the board of directors:

"Gary Cope" Director
Gary Cope

"Ross Wilmot" Director
Ross Wilmot

(The accompanying notes are an integral part of these consolidated financial statements)

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT****FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

	2006	(Restated - Note 15) 2005
	\$	\$
REVENUE	—	—
EXPENSES		
Amortization	5,590	2,195
Bank charges and interest	53,007	1,234
Consulting fees	110,579	93,645
Exploration expenditures (Notes 7 and 11(c)(i))	4,703,598	1,793,762
Insurance	6,102	4,288
Investor and public relations	450,027	177,262
Management fees (Note 11(c)(ii))	191,800	109,100
Office and miscellaneous	106,814	51,334
Professional fees	61,683	55,447
Rent	32,000	24,000
Repairs and maintenance	23,940	2,484
Stock-based compensation (Note 8)	750,165	136,650
Telephone and communications	20,787	4,930
Transfer agent and filing fees	28,296	29,509
Travel and entertainment (Note 11(c)(iii))	663,853	141,063
	<u>7,208,241</u>	<u>2,626,903</u>
LOSS BEFORE OTHER ITEMS	(7,208,241)	(2,626,903)
OTHER ITEMS		
Foreign exchange gain (loss)	(20,148)	14,476
Gain on sale of investments	48,124	—
Interest income	114,522	4,212
LOSS FOR THE YEAR	(7,065,743)	(2,608,215)
DEFICIT, BEGINNING OF YEAR	(7,115,100)	(4,441,426)
RESTATEMENT (Note 15)	—	(65,459)
DEFICIT, BEGINNING OF YEAR, AS RESTATED	(7,115,100)	(4,506,885)
DEFICIT, END OF YEAR	(14,180,843)	(7,115,100)
BASIC AND DILUTED LOSS PER SHARE (Note 10)	(0.13)	(0.11)

(The accompanying notes are an integral part of these consolidated financial statements)

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

	2006	(Restated - Note 15) 2005
	\$	\$
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	(7,065,743)	(2,608,215)
Items not involving cash and cash equivalents:		
Amortization	5,590	2,195
Gain on sale of marketable securities	(48,124)	-
Shares issued for interest	45,000	-
Stock-based compensation expense	750,165	136,650
	(6,313,112)	(2,469,370)
Changes in operating assets and liabilities:		
Receivables	(76,998)	(4,708)
Prepaid expenses	(19,484)	-
Due from related parties	13,265	-
Accounts payable and accrued liabilities	198,410	287,253
Due to related parties	162,220	(13,219)
	(6,035,699)	(2,200,044)
FINANCING ACTIVITIES		
Proceeds from common shares issued, net of share issue costs	6,394,364	2,386,100
Proceeds from warrants issued in private placements	2,592,725	-
	8,987,089	2,386,100
INVESTING ACTIVITIES		
Purchase of property and equipment	(17,210)	-
Purchase of mineral property	(6,642)	-
Purchases of short-term investments	(4,000,000)	-
Sales of short-term investments	1,000,000	-
Sale of marketable securities	58,563	-
	(2,965,289)	-
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(13,899)	186,056
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	229,647	43,591
CASH AND CASH EQUIVALENTS, END OF YEAR	215,748	229,647
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	-	-
Income taxes	-	-
Non-cash financing and investing activities:		
Common shares issued for services	556,041	131,915
Common shares issued for mineral properties	1,245,163	42,000

(The accompanying notes are an integral part of these consolidated financial statements)

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the laws of the Province of British Columbia, Canada on August 5, 1983. The Company's principal business activities include the acquisition and exploration of mineral properties domiciled in Mexico. The Company is in the exploration stage and has not yet determined whether any of these properties contain ore reserves that are economically recoverable.

As at October 31, 2006, the Company had working capital of \$2,629,314, and an accumulated deficit of \$14,180,843. The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in mineral properties, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Company and its wholly-owned Mexican subsidiary, Orko Silver de Mexico S.A. de C.V., which was incorporated on October 4, 2006. All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the recoverability or valuation of receivables and mineral properties, the utilization of future income tax assets, the valuation of asset retirement obligations and stock-based compensation. Actual results may ultimately differ from those estimates.

(c) Cash Equivalents

The Company considers all highly liquid investments with a term to maturity of three months or less on the date of purchase to be cash equivalents.

(d) Short-Term Investments

Short-term investments consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase. Short-term investments are recorded at the lower of cost or fair market value.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Marketable Securities

Marketable securities are recorded at the lower of cost or fair market value. The carrying amount is reduced to market value when the decline in value is other than temporary. The market value of marketable securities as at October 31, 2005 was \$35,791.

(f) Equipment

Computer equipment is initially recorded at cost and is subsequently amortized on the declining balance basis at a rate of 30% per annum.

(g) Mineral Properties

Mineral property acquisition costs are capitalized, exploration costs are expensed, and development costs are capitalized once a mineral property is determined to be economically viable. Capitalized mineral property costs will be amortized upon the commencement of commercial production using the unit of production basis.

(h) Translation of Foreign Currencies

Transactions and balances in currencies other than the Canadian dollar are translated by the temporal method with revenue, expenses and non-monetary balances converted at exchange rates prevailing at the transaction dates and monetary balances converted at rates prevailing at year-end with resulting exchange gains and losses recognized in the determination of income.

(i) Loss per Share

Basic earnings/loss per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of "in the money" stock options.

(j) Long-Lived Assets

The recoverability of long-lived assets, which includes equipment and mineral properties, is assessed when an event occurs indicating impairment. Recoverability is based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use or sale of the related assets. An impairment loss is recognized in the period when it is determined that the carrying amount of the asset will not be recoverable. At that time the carrying amount is written down to fair value.

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(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Stock-Based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants. The Company recognizes compensation expense for this plan under the fair value based method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of each option grant is estimated on the date of the grant and amortized over the vesting period, with the resulting amortization credited to contributed surplus. The Company estimates the fair value of each grant using the Black-Scholes option-pricing model. Consideration paid by employees on the exercise of stock options is recorded as share capital.

(l) Asset Retirement Obligations

Effective January 1, 2004, the Company adopted a new Canadian accounting standard for asset retirement obligations. Under the new standard, the Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. As at October 31, 2006, the Company has not incurred any asset retirement obligation related to the exploration of its mineral properties.

(m) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and taxes bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(n) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. EQUIPMENT

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
	\$	\$	\$	\$
Computer equipment	25,574	9,499	16,075	4,455

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

4. MINERAL PROPERTIES

	La Preciosa Mexico \$	Santa Monica Mexico \$	San Juan Mexico \$	Total \$
2006				
Mineral properties, beginning of the year	21,000	21,000	–	42,000
Acquisition costs capitalized during the year	1,213,163	–	32,000	1,245,163
Mineral properties, end of the year	1,234,163	21,000	32,000	1,287,163
2005				
Mineral properties, beginning of the year	–	–	–	–
Acquisition costs capitalized during the year	21,000	21,000	–	42,000
Mineral properties, end of the year	21,000	21,000	–	42,000

(a) La Preciosa, Mexico

On November 17, 2003, the Company acquired an option to earn a 51% interest in the La Preciosa property from Minas Sanluis S.A. de C.V. ("Minas Sanluis"), a wholly-owned subsidiary of Goldcorp Inc. (formerly Wheaton River Minerals Ltd.). Under the terms of the agreement, the Company could earn the interest by:

- (i) issuing 100,000 common shares of the Company to Minas Sanluis - the first 50,000 shares upon approval by the TSX Venture Exchange (the "Acceptance Date") and the remaining 50,000 shares 12 months thereafter; and
- (ii) incurring expenditures of US\$1,000,000 over five years as follows:

Year Following the Acceptance Date	US\$
Year 1	50,000
Year 2	100,000
Year 3	150,000
Year 4	250,000
Year 5	450,000

The Company could earn a further 24% interest in the property by incurring additional expenditures of US\$500,000 by the end of the sixth year. Upon the Company earning a 75% interest, Minas Sanluis would have a 90-day option to purchase a 35% interest in the property for US\$1,500,000 increasing its total interest to 60%.

Pursuant to the terms of the agreement, the Company issued the first 50,000 shares to Minas Sanluis with a fair value of \$21,000 during the year ended October 31, 2005.

During the year, the Company fulfilled its obligations under the agreement and had earned a total interest of 75%. On February 27, 2006, the Company entered into a letter agreement to acquire the remaining 25% interest in the property from Minas Sanluis for common shares of the Company. On June 21, 2006, the Company fulfilled its obligations under the letter agreement by issuing 2,378,750 common shares with a fair value of \$1,213,163 increasing the Company's total interest to 100%. The Company has granted Goldcorp Inc. the right of first refusal upon the sale of all or part of the Company's interest in the property.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

4. MINERAL PROPERTIES (continued)

(b) Santa Monica, Mexico

On May 11, 2004, the Company acquired an option to earn a 51% interest in the Santa Monica property from Minas Sanluis S.A. de C.V. ("Minas Sanluis"), a wholly-owned subsidiary of Goldcorp Inc. (formerly Wheaton River Minerals Ltd.). Under the terms of the agreement, the Company can earn the interest by:

- (i) issuing 100,000 common shares of the Company to Minas Sanluis - the first 50,000 shares upon approval by the TSX Venture Exchange (the "Acceptance Date") and the remaining 50,000 shares 12 months thereafter; and
- (ii) incurring expenditures of US\$1,000,000 over five years as follows:

Year Following the Acceptance Date	US\$
Year 1	75,000
Year 2	100,000
Year 3	125,000
Year 4	250,000
Year 5	450,000

The Company can earn a further 24% interest in the property by incurring additional expenditures of US\$500,000 by the end of the sixth year. Upon the Company earning a 75% interest, Minas Sanluis would have a 90-day option to purchase a 35% interest in the property for US\$1,500,000 increasing its total interest to 60%.

Pursuant to the terms of the agreement, the Company issued the first 50,000 shares to Minas Sanluis with a fair value of \$21,000 during the year ended October 31, 2005. As at October 31, 2006, the Company had not issued the second 50,000 shares in accordance with the agreement. The Company rectified this by issuing the 50,000 shares on February 8, 2007. As at October 31, 2006, the Company had incurred US\$27,323 of the US\$175,000 of expenditures required by the agreement. The Company has obtained a letter agreement from Goldcorp Inc. waiving that this temporary non-compliance is not a breach of the terms of the agreement and that the agreement is in good standing as at February 8, 2007.

(c) San Juan, Mexico

On April 10, 2006, the Company acquired an option to earn a 75% interest in the San Juan property from Silver Standard Mexico S.A. de C.V. ("Silver Standard"), a wholly-owned subsidiary of Silver Standard Resources Inc. Under the terms of the agreement, the Company can earn the interest by:

- (i) issuing 40,000 common shares of the Company to Silver Standard upon approval by the TSX Venture Exchange (the "Acceptance Date"); and
- (ii) incurring expenditures of US\$750,000 cumulatively over three years as follows:

Date	US\$
Incurred before April 10, 2007	250,000
Incurred before April 10, 2008	—
Incurred before April 10, 2009	750,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

4. MINERAL PROPERTIES (continued)

(c) San Juan, Mexico (continued)

Upon earning a 75% interest in the property, the Company and Silver Standard will form a joint venture. The agreement provides that Silver Standard will be given the right to increase its interest in the joint venture by 10% for a total interest of 35% by incurring the next US\$750,000 in expenditures on the property.

Pursuant to the terms of the agreement, on May 16, 2006, the Company issued 40,000 shares to Silver Standard with a fair value of \$32,000.

5. SHARE CAPITAL

(a) Authorized

100,000,000 common shares without par value

(b) Issued and Outstanding

	Number of Shares	Amount \$
Balance, October 31, 2004	19,558,384	4,429,559
Issued during the year		
For cash:		
Private placements, net of share issue costs	7,450,000	1,513,585
Exercise of options	690,000	72,600
Exercise of warrants	6,620,000	668,000
For services:		
Finders' fees for private placements	603,685	131,915
For property:		
Issued for La Preciosa property	50,000	21,000
Issued for Santa Monica property	50,000	21,000
Transferred from contributed surplus:		
Exercise of options	-	30,500
Balance at October 31, 2005	35,022,069	6,888,159

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(b) Issued and Outstanding (continued)

	Number of Shares	Amount \$
Balance at October 31, 2005	35,022,069	6,888,159
Issued during the year		
For cash:		
Private placements, net of share issuance costs	24,065,902	4,595,815
Exercise of options	215,000	48,200
Exercise of agent options	333,425	100,028
Exercise of warrants	2,199,150	521,560
For services:		
Finders' fees for private placements	957,000	556,041
For property:		
Issued for La Preciosa property, net of share issuance costs	2,378,750	1,206,521
Issued for San Juan property	40,000	32,000
For interest expense	100,000	45,000
Transferred from contributed surplus:		
Exercise of options	-	26,150
Exercise of agent options	-	96,393
Exercise of warrants	-	56,960
Balance at October 31, 2006	65,311,296	14,172,827

- (i) On February 3, 2006, the Company issued 10,667,332 units at \$0.30 per unit for gross proceeds of \$3,200,200 under brokered and non-brokered private placements. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share for 12 months from the date of closing at a price of \$0.40 per common share. Values of \$2,160,580 and \$1,039,620 were assigned to the common shares and warrants, respectively, based on their relative fair values at the closing date of the private placements. In connection with the private placement, the Company issued 354,050 units as a commission with terms similar to those issued under the brokered and non-brokered private placements. Values of \$180,566 and \$86,884 were assigned to the common shares and warrants, respectively, based on their fair values at the closing date of the private placements. The Company issued 680,000 options to acquire 680,000 units at a price of \$0.30 per unit for a period of 12 months from the date of closing as a commission. The units have the same terms as those issued under the brokered and non-brokered private placements. These agent options were assigned a fair value of \$363,485. The Company paid cash commissions of \$168,828 and incurred other cash share issuance costs of \$49,057. The fair values of the agent options and warrants issued in connection with this private placement were computed using the Black-Scholes option-pricing model.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(b) Issued and Outstanding (continued)

- (ii) On March 2, 2006, the Company issued 8,798,570 units at \$0.35 per unit for gross proceeds of \$3,079,500 under a non-brokered private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share for 18 months from the date of closing at a price of \$0.50 per common share. Values of \$2,080,181 and \$999,319 were assigned to the common shares and warrants, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company issued 232,950 units as a commission with terms similar to those issued under the brokered and non-brokered private placements. Values of \$116,475 and \$55,955 were assigned to the common shares and warrants, respectively, based on their fair values at the closing date of the private placements. The Company paid cash commissions of \$226,475 and incurred other cash share issuance costs of \$26,697. The fair values of the warrants issued in connection with this private placement were computed using the Black-Scholes option-pricing model.
- (iii) On May 23, 2006, the Company issued 4,600,000 units at \$0.59 per unit for gross proceeds of \$2,714,000 under a non-brokered private placement. Each unit consists of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share for 24 months from the date of closing at a price of \$0.78 per common share. Values of \$2,160,214 and \$553,786 were assigned to the common shares and warrants, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company issued 370,000 units as a commission with terms similar to those issued under the brokered and non-brokered private placements. Values of \$259,000 and \$66,397 were assigned to the common shares and warrants, respectively, based on their fair values at the closing date of the private placements. The Company paid cash commissions of \$155,197 and incurred other cash share issuance costs of \$26,792. The fair values of the warrants issued in connection with this private placement were computed using the Black-Scholes option-pricing model.
- (iv) During 2005, the Company completed three private placements. The first private placement of 2,250,000 units at \$0.15 per unit provided gross proceeds of \$337,500. Each unit consists of one share and one share purchase warrant, entitling the holder thereof to purchase an additional share at \$0.15 until March 14, 2006 and at \$0.20 per share until March 14, 2007. In connection with the transaction, the Company issued 195,000 units at a deemed price of \$0.15 per unit as a finders' fee.
- (v) The second private placement in 2005 of 4,800,000 units at \$0.25 per unit provided gross proceeds of \$1,200,000. Each unit consists of one share and one half of a share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase an additional share at \$0.30 until August 17, 2007. In connection with the transaction, the Company issued 384,000 units at a deemed price of \$0.25 per unit as a finders' fee.
- (vi) The third private placement in 2005 of 400,000 units at \$0.27 per unit provided gross proceeds of \$108,000. Each unit consists of one share and one half of a share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase an additional share at \$0.35 until August 17, 2007. In connection with the transaction, the Company issued 24,685 units at a deemed price of \$0.27 per unit as a finders' fee.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(c) Stock Options

The Company has a plan to grant stock options to directors, officers, employees and consultants of the Company. Under the plan, the board of directors has the discretion to issue the equivalent of up to 10% of the issued and outstanding shares of the Company from time to time. Options are generally for a term of up to five years from the date granted and are exercisable at a price that is not less than the market price on the date granted.

Stock option activity since October 31, 2004 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2004	1,855,000	0.12
Granted	1,865,000	0.35
Exercised	(690,000)	0.11
Outstanding, October 31, 2005	3,030,000	0.26
Granted	4,210,000	0.54
Exercised	(215,000)	0.22
Cancelled	(550,000)	0.55
Expired	(260,000)	0.22
Outstanding, October 31, 2006	6,215,000	0.45

The following table summarizes the stock options outstanding and exercisable at October 31, 2006:

Options Outstanding				Options Exercisable	
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price \$	Number Exercisable	Weighted Average Exercise Price \$
\$0.11 - \$0.13	940,000	1.82	0.11	940,000	0.11
\$0.22 - \$0.25	150,000	0.32	0.25	150,000	0.25
\$0.30	25,000	0.42	0.30	25,000	0.30
\$0.40	175,000	0.62	0.40	175,000	0.40
\$0.45 - \$0.47	1,365,000	1.66	0.45	1,290,000	0.45
\$0.54 - \$0.55	3,560,000	4.36	0.55	1,995,000	0.55

The options outstanding at October 31, 2006 will expire between November 30, 2006 and September 11, 2011.

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(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(d) Warrants

Warrant activity since October 31, 2004 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2004	6,700,000	0.10
Issued	5,249,343	0.23
Exercised	(6,620,000)	0.10
Outstanding, October 31, 2005	5,329,343	0.23
Issued	22,871,327	0.48
Exercised	(2,199,150)	0.24
Outstanding, October 31, 2006	26,001,520	0.45

Warrants outstanding at October 31, 2006 expire between February 3, 2007 and May 23, 2008.

(e) Agent Options

During the year ended October 31, 2006, the Company issued 680,000 agent options to purchase 680,000 units in connection with the financing described in Note 5(b)(i). Agent option activity since October 31, 2004 is presented below:

	Number of Units	Weighted Average Exercise Price \$
Outstanding, October 31, 2004 and 2005	—	—
Granted	680,000	0.30
Exercised	(333,425)	0.30
Outstanding, October 31, 2006	346,575	0.30

Agent options outstanding at October 31, 2006 expire on February 3, 2007.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

6. CONTRIBUTED SURPLUS

	2006	(Restated - Note 15) 2005
	\$	\$
Balance, beginning of year	204,461	32,852
Restatement (Note 15)	-	65,459
Balance, beginning of year, as restated	204,461	98,311
Fair value of stock-based compensation recorded during the year	750,165	136,650
Fair value of warrants and agent options issued for services	572,720	-
Relative fair value of warrants issued for cash in private placements	2,592,725	-
Transferred to share capital upon exercise of stock options	(26,150)	(30,500)
Transferred to share capital upon exercise of agent options	(96,393)	-
Transferred to share capital upon exercise of warrants	(56,960)	-
Balance, end of year	3,940,568	204,461

7. EXPLORATION EXPENDITURES

	La Preciosa Mexico \$	Santa Monica Mexico \$	Total \$
2006			
Drilling	3,469,693	-	3,469,693
Geological	208,100	-	208,100
Geophysical	-	-	-
Site costs	699,719	25,870	725,589
General exploration	295,399	4,817	300,216
	4,672,911	30,687	4,703,598
2005			
Drilling	1,306,202	-	1,306,202
Geological	163,277	-	163,277
Geophysical	96,712	-	96,712
Site costs	166,904	-	166,904
General exploration	60,667	-	60,667
	1,793,762	-	1,793,762

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

8. STOCK-BASED COMPENSATION

During the year ended October 31, 2006, the Company granted 4,210,000 (2005 – 1,865,000) stock options to directors, officers and consultants of the Company. The weighted average fair value of each option granted was \$0.23 (2005 - \$0.21) using the Black-Scholes option-pricing model at the date of each grant using the following assumptions:

	2006	2005
Assumptions:		
Expected option lives	2 years	2 - 5 years
Risk-free interest rate	4.06%	3.2% - 3.8%
Expected dividend yield	0%	0%
Expected stock price volatility	84%	109% - 177%

During the year ended October 31, 2006, the Company recognized \$750,165 (2005 - \$136,650) of compensation cost which has been recorded in stock-based compensation expense.

9. INCOME TAXES

In assessing the realization of the Company's future income tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax assets considered realizable could change materially in the near term based on future taxable income generated during the carry-forward period.

(a) The significant components of the Company's future tax assets are as follows:

	2006	2005
	\$	\$
Future income tax assets:		
Non-capital tax losses carried forward	902,000	570,000
Capital losses carried forward	79,000	79,000
Share issue costs	305,000	382,000
Property and equipment	1,000	1,000
Canadian exploration expenses	193,000	193,000
Foreign exploration expenses	2,188,000	1,008,000
Total gross future income tax assets	3,668,000	2,233,000
Valuation allowance	(3,668,000)	(2,233,000)
Net future income tax assets	—	—

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

9. INCOME TAXES (continued)

- (b) As at October 31, 2006, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$2,642,000 expiring as follows:

	\$
2007	143,000
2008	171,000
2009	296,000
2010	429,000
2014	253,000
2015	192,000
2026	1,158,000
	<u>2,642,000</u>

10. LOSS PER SHARE

The weighted average number of shares outstanding used in the computation of loss per share was 53,749,000 (2005 – 23,232,000). Outstanding share options, agent options and warrants have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

11. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Due from Related Parties

As at October 31, 2005, due from related parties consists of \$1,350 advanced to an officer of the Company for travel expenses to be incurred on behalf of the Company and \$11,915 advanced to a company controlled by a director of the Company for exploration expenditures to be incurred on behalf of the Company. These amounts were non-interest bearing, unsecured and had no fixed terms of repayment.

(b) Due to Related Parties

As at October 31, 2006, due to related parties consists of \$5,106 (2005 – \$3,585) payable to an officer of the Company for management fees and \$160,699 (2005 – \$nil) payable to a company controlled by a director of the Company for exploration expenditures. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

(c) Related Party Transactions

During the year ended October 31, 2006 the Company entered into the following transactions with related parties:

- (i) A company controlled by a director of the Company incurred \$1,022,893 (2005 – \$228,635) in exploration expenditures on behalf of the Company.
- (ii) An officer and companies controlled by officers of the Company earned management fees of \$191,800 (2005 – \$109,100).
- (iii) Officers and a company controlled by an officer of the Company incurred \$116,623 (2005 – \$65,216) of travel expenses on behalf of the Company.

All of the above noted transactions have been in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

ORKO SILVER CORP. (formerly Orko Gold Corporation)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005
(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

The Company has various financial instruments including cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and due to related parties. The carrying values of these financial instruments approximate their fair values due to the near-term maturity of these financial instruments.

(b) Concentrations of business risk

The Company maintains all of its cash and cash equivalents and short-term investments with a major Canadian financial institution. Deposits held with this institution may exceed the amount of insurance provided on such deposits.

As the Company operates in an international environment, some of the Company's transactions are denominated in currencies other than the Canadian dollar. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations.

13. COMMITMENT

On February 20, 2006, the Company entered into a joint lease agreement with an unrelated third party to lease office premises commencing July 1, 2006 for a term of five years. The lease commitment is shared equally between the two parties. The Company's portion of the lease payments for the next five years is as follows:

	\$
2007	70,000
2008	70,000
2009	70,000
2010	70,000
2011	52,500

14. SUBSEQUENT EVENTS

- (a) On November 1, 2006, the Company granted 25,000 stock options to a consultant with an exercise price of \$0.49 per share expiring November 1, 2011.
- (b) On November 2, 2006, the Company modified the expiry date of 75,000 stock options with an exercise price of \$0.13 from November 30, 2006 to November 30, 2009.
- (c) From November 1, 2006 to January 9, 2007, 2,731,745 common shares were issued pursuant to the exercise of stock options, warrants and agent options for gross proceeds of \$1,085,030.
- (d) On February 8, 2007, the Company issued 50,000 common shares to Minas Sanluis to fulfill its obligations under the Santa Monica option agreement as described in Note 4(b).

ORKO SILVER CORP. (formerly Orko Gold Corporation)**(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005****(Expressed in Canadian Dollars)**

15. RESTATEMENT OF PRIOR PERIODS DUE TO CORRECTION

During the year ended October 31, 2006, the Company identified that it had recognized higher than appropriate amounts of compensation cost, incurred pursuant to the grant of stock options, as stock-based compensation expense during the years ended October 31, 2005 and 2004. As a result, the Company has restated its financial statements resulting in a decrease of \$257,309 in deficit and contributed surplus. The effects of this restatement on the financial statements for the year ended October 31, 2005 are summarized as follows:

	Previously Reported \$	Adjustment \$	Restated \$
Balance sheet:			
Contributed surplus	461,770	(257,309)	204,461
Deficit	(7,372,409)	257,309	(7,115,100)
Statement of operations:			
Stock-based compensation	459,418	(322,768)	136,650
Loss for the year	(2,930,983)	322,768	(2,608,215)
Deficit, beginning of year	(4,441,426)	(65,459)	(4,506,885)
Deficit, end of year	(7,372,409)	257,309	(7,115,100)
Loss per share - basic and diluted	(0.11)	—	(0.11)
