
ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008

(Dated September 21, 2009)

Management's Responsibility for Financial Reporting:

The accompanying interim consolidated financial statements have been prepared by management and are in accordance with Canadian Generally Accepted Accounting Principles. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated interim financial statements.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these interim filings, and these interim financial statements together with the other financial information included in these interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in these interim filings.

The Board of Directors approves the financial statements and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports prior to filing.

Certain statements in this report may constitute forward-looking statements that are subject to risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made.

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(Expressed in Canadian Dollars)

Description of Business:

La Preciosa Property:

On December 1, 2003, the Company entered into a joint venture with Minas de Sanluis S.A. de C.V., a subsidiary of Wheaton River Minerals Ltd. ("Wheaton") (now Goldcorp Inc.), with Luismin, S.A. de C.V., and with Minera Thesalia, S.A. de C.V. to acquire an interest in the La Preciosa silver-gold project located in the State of Durango, Mexico. Under the terms of the agreement, Orko earned a 75 per cent interest in the project by incurring exploration and development expenditures of US\$1.5 million. The Company issued 50,000 common shares to Minas de Sanluis upon TSX Venture Exchange approval. On March 3, 2006, the Company reached an agreement with Goldcorp Inc. to acquire 100 per cent ownership of the La Preciosa Project. Pursuant to the agreement, the Company acquired the remaining 25 per cent interest in La Preciosa from Goldcorp Inc. for consideration of US \$1 Million, satisfied by issuing to Luismin S.A. de C.V. (a subsidiary of Goldcorp Inc.) common shares of the Company at a deemed price of CDN \$0.48 per share. In June 2006, the Company issued 2,378,750 shares to Luismin S.A. de C.V. and completed its acquisition of 100% of the La Preciosa property.

The La Preciosa property hosts tertiary-aged gold and silver bearing epithermal quartz vein systems, associated with barite and minor quantities of base metals. The vein trend is principally north/south, although there are subordinate, mineralized vein systems that run in an east/west direction. Veins have been traced for over 5 km along strike with thicknesses of up to 40 metres encountered in drill intercepts. The La Preciosa claims cover 1,134 hectares and are located about an hour and a half from Durango, Durango State, Mexico.

In 2005, the Company retained a geophysics contractor to conduct an IP survey on the La Preciosa property and a number of targets were identified, and subsequently, management signed an agreement with Major Drilling de Mexico, S.A. de C.V. to undertake a drilling program, initially estimated at approximately 5,000 metres. Drilling commenced in March 2005, and based on the early results, the Company extended the program for an additional 5,000 metres, and engaged a second drill capable of greater depths. The results of this extension were encouraging, and the Company was able to release an Inferred Resource Estimate indicating an in-situ resource of approximately 22.3 million ounces of Silver – Equivalent, based on the assay results from 18 of its first 24 holes completed.

The Company has since completed multiple phases of the drilling program on the La Preciosa property and drilled continuously through to December 2008 such that 354 holes have been drilled in the main area, plus 12 peripheral target holes, for a total of 145,976 metres. At the site, five core storage buildings and one coarse rejects storage building have been constructed and a new road access route to southern targets completed. The Company has released assay results for all holes drilled to date, and has been able to extend the strike length to 3.5 km in the resource area to date, and has added a major vein deeper in the stratigraphy, named the "Martha" vein.

In addition, a geochemical program consisting of 1,167 soil samples has been conducted over the southern part of La Preciosa. La Preciosa soil grid is contiguous with the soil grid on the southern end of San Juan. Multiple geochemical anomaly targets have been identified for future follow up. Surface trenching programs have commenced on the El Orito Norte and Nancy veins. Results of the trenching on the Nancy Vein were released on June 16, 2009 leading to a favourable drilling recommendation.

On February 18, 2009, the Company released an independent resource estimate, completed by Mine Development Associates (MDA) of Reno, Nevada, reporting an Indicated Resource of approximately 68.9 million ounces of Silver – Equivalent and an Inferred Resource of approximately 77.6 million ounces of Silver – Equivalent. This current resource estimate was based on all holes drilled to date.

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QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
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Description of Business (continued):

Santa Monica Property:

On June 21, 2004, the Company announced that it had acquired an option for a 51 per cent participation in a second property from Wheaton (now Goldcorp Inc.) through its subsidiary, Minas de Sanluis S.A. de C.V. The terms of this second option are similar to those of the first with Wheaton on the La Preciosa property. The Company is required to make expenditures of US\$1 million over the next five years and to issue 100,000 common shares, the first 50,000 shares upon acceptance by the TSX Venture Exchange and the remaining 50,000 shares after one year from the date of approval. The property, termed "Santa Monica", covers 17,285 hectares and is located in the Municipality of Panuco de Coronado, Durango State, Mexico, and is adjacent to the La Preciosa property. On February 9, 2007, the Company issued the second tranche of 50,000 common shares to Luismin S.A. de C.V.

During 2008, the Company's cumulative exploration expenditures on the Santa Monica Property exceeded US\$1,000,000, consequently fulfilling all of the terms required to earn the 51% interest in the property. The Company elected not to exercise an option to acquire an additional 24% interest in the property and instead, on October 10, 2008, entered into a new agreement to acquire the remaining 49% interest in the Santa Monica property in exchange for 2,000,000 common shares of the Company, valued at \$1,480,000, which were subsequently issued on June 16, 2009.

On the Santa Monica property, an initial work program has been completed, including mapping of the Mesa de los Panuqueños area, together with sampling of 706 rock float samples and 1,920 soil samples, plus an ASTER alteration satellite imagery study by PhotoSat Inc of Vancouver, BC. Results from the testing have been received and reported. An IP geophysical survey by Peter Walcott & Associates Inc. of Vancouver, BC, which commenced in March 2007, has completed 212 line-kilometres over the sample area in the northeast sector of the property. In 2008, the Company completed an initial drilling program on Santa Monica, consisting of 6 diamond drill holes totaling 2,498 metres.

San Juan Property:

On April 25, 2006 the Company had announced that it had signed an Option Agreement with Silver Standard Resources Inc. ("Silver Standard") to acquire a 75 per cent interest in its "San Juan" property located in the Municipalities of Canatlan and Panuco de Coronado, Durango State, Mexico. The San Juan property is immediately adjacent to the west of the Company's La Preciosa property and Santa Monica Joint Venture. Under the terms of the Option Agreement, Orko Silver can earn a 75 per cent interest in the San Juan property from Silver Standard Mexico S.A. de C.V. (a wholly owned subsidiary of Silver Standard Resources Inc.) by incurring exploration expenditures of US \$750,000 over a three year period, and by issuing 40,000 common shares to Silver Standard upon acceptance of filing of the Option Agreement by the TSX Venture Exchange. In addition, after satisfying the option expenditure requirement to earn the 75 per cent interest in the San Juan property, the agreement provides that the Company grant Silver Standard a "Back-in Right" to increase its interest by 10 per cent, to a 35 per cent total interest in the Joint Venture by incurring the next US \$750,000 in expenditures on the property. On May 16, 2006 the Company issued 40,000 common shares to Silver Standard as per the terms of the agreement for acquiring the 75 per cent interest in the San Juan property.

During 2008, the Company's cumulative exploration expenditures on the San Juan Property exceeded US\$750,000, consequently fulfilling all of the terms for the 75 per cent interest in the property and on July 21, 2008, the Company provided formal notice to Silver Standard that it had met the required expenditure level. Following this, the Company elected not to form a joint venture with Silver Standard as contemplated in the original agreement and instead, on March 27, 2009, the Company entered into a new agreement to acquire the remaining 25% interest in the San Juan property in exchange for 306,263 common shares of the Company, valued at \$226,635, which were subsequently issued on June 16, 2009.

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(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Description of Business (continued):

San Juan Property (continued):

An ASTER alteration satellite imagery study by PhotoSat Inc. of Vancouver, BC, for the San Juan property has been completed, as well as geological mapping, extending the strike length of the Nancy Sur, La Plomosa, El Vaquero and the La Plomosa Sur structures. In addition, an expanded geochemical survey of the property was initiated and included 1,164 soil samples and 256 rock chip samples. The San Juan soil grid is contiguous with the soil grid on the southern end of La Preciosa. Multiple geochemical anomaly targets have been identified for future follow up.

In late 2007, the Company initiated a 10,000 metre drilling program for the first phase of the San Juan project, initially targeted for La Plomosa and El Vaquero veins. Eight drill holes have been completed in the La Plomosa target area for 3,372 metres.

Joint Venture with Pan American Silver Corp.:

On April 13, 2009, the Company reached an agreement with Pan American Silver Corp. ("Pan American") for the joint development of the La Preciosa, Santa Monica and San Juan properties, together termed the "La Preciosa project".

Pan American will contribute its demonstrated mine development expertise, as well as 100% of the funds necessary to develop and construct an operating mine, in consideration for a 55% interest in the joint venture, while the Company will contribute its exploration expertise and the La Preciosa project and related concessions to retain a 45% interest. Over the next 36 months, Pan American has agreed to spend an estimated US\$16 million on the project to conduct resource definition drilling, acquire necessary surface rights, obtain permits, and ultimately prepare and deliver a feasibility study to maintain its interest in the joint venture. Furthermore, Pan American has agreed to spend a minimum of US\$5.0 million in the first 12 months of the development program to maintain its interest in the joint venture, of which a minimum of US\$2.5 million will be spent to continue to explore the land package that the Company is contributing to the joint venture.

Key terms of the joint venture and the development strategy for the La Preciosa project include:

- Pan American will be the operator for the joint venture and has agreed to share with the Company all technical information relating to the development of the La Preciosa project,
- A joint venture management committee will be formed, with representation from both the Company and Pan American, which will be responsible for monitoring the project's development,
- Any mine construction decision and subsequent operating budgets will require the unanimous approval of the management committee,
- Pan American has agreed to a "standstill" with the Company for as long as the joint venture is in operation.

The joint venture agreement was subject to approval by the TSX Venture Exchange, which was received subsequent to the period-end, on May 14, 2009.

Coincident with the formation of the La Preciosa project joint venture, on April 21, 2009, the Company issued 4,000,000 common shares to Pan American at \$1.25 per share for gross proceeds of \$5,000,000 under a non-brokered private placement. Pan American's investment in the Company's common shares is subject to certain anti-dilution and pre-emptive rights to participate in future financings of the Company.

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(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
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Description of Business (continued):

Joint Venture with Pan American Silver Corp. (continued):

In June 2009, the joint venture partners commenced a comprehensive exploration and delineation drilling program at the La Preciosa silver project and expect to complete approximately 30,000 meters of drilling on the property before the end of December 2009. The initial delineation drilling is specifically designed to upgrade Martha Vein inferred resources to measured and indicated status, while the exploration drilling will focus on several untested prominent vein structures within the joint venture property, that had been previously discovered by the Company. Pan American, operator of the La Preciosa joint venture, plans to spend a total of US \$5.7 million before the end of December 2009, to complete the drill programs, as well as to initiate other project development related activities, including advanced metallurgical testing.

The Pan American Phase-I delineation drilling at La Preciosa consisted of 31 HQ diamond drill holes for a total of 8,850 meters. The holes are located in the heart of the Martha vein structure and were drilled at approximately 50 metre spacing in an area previously drilled by the Company at 100 metre spacing. This data confirms La Preciosa results and will form the basis of a geostatistical study, toward ultimate reserve definition. Phase-II diamond drilling is underway.

In addition to the drilling, Pan American has completed 57 trenches on regional exploration targets with the resultant collection of 557 samples. These results have encouraged Pan American to commence drilling on the exploration targets such as El Vaquero, Nancy, Baritina, Baritina Norte (Martha North) and Orito Norte.

Pan American has also completed 90% of a planned first phase detailed metallurgical program that has included work index tests, abrasion tests, mineralogical studies, gravity tests, cyanide tests and flotation tests. Full results from these studies will be released when they are completed.

Results of Operations for the Three Months Ended July 31, 2009 and 2008:

Per the terms of the joint venture agreement mentioned above, exploration work on the La Preciosa project will be conducted and funded by Pan American. The Company's carried interest on essentially all exploration work conducted during the third quarter resulted in significantly lower exploration costs of \$139,054 compared to \$4,377,693 incurred in the third quarter of last year. The current quarter costs were incurred primarily on the La Preciosa property with costs on this property amounting to \$116,908. The Company also incurred exploration costs of \$1,274 on the Santa Monica property, \$6,292 on the San Juan property and \$14,580 to conduct due diligence on other properties. Of the exploration costs incurred this quarter, geological costs were \$91,012, assay costs were \$29,867 and general exploration costs totaled \$18,175.

In the third quarter of 2009, the Company incurred \$2,639,670 for general expenses, up 64 per cent over those incurred in the third quarter of last year of \$1,613,669. The increase was primarily due to a non-cash charge of \$1,873,660 to earnings representing the imputed value of stock options granted to directors, officers and consultants up significantly from the charge of \$929,339 recorded last year. Investor relations costs of \$263,273 were also up significantly from those incurred last year of \$104,147 due to the Company's efforts to maintain investor awareness, particularly of the Company's joint venture agreement with Pan American. Professional fees of \$132,389 were up from \$57,635 incurred during the same period of the prior year, due to continuing costs associated with the joint venture agreement. Less travel was required to the Company's properties in Mexico this quarter and as a result, travel costs of \$142,640 were down from \$287,308 incurred in the third quarter of 2008. All other costs were consistent with those incurred in the same period of the prior year.

Overall, in the third quarter of 2009, the Company incurred a loss of \$2,787,248 or \$0.02 per share, 53 per cent lower than the loss in the third quarter of last year of \$5,893,127 or \$0.04 per share. The decrease is attributable primarily to the significantly lower exploration costs, down 97 per cent.

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(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Results of Operations for the Nine Months Ended July 31, 2009 and 2008:

To preserve working capital, the Company drill rigs were idled during the first quarter of 2009 and all exploration expenditures were scaled back significantly. During the second quarter of 2009, the Company reached a joint venture agreement whereby exploration work on the La Preciosa project will be conducted and funded by Pan American. The reduced level of exploration conducted directly by the Company combined with the Company's carried interest on essentially all exploration work on La Preciosa since April 2009, resulted in significantly lower exploration costs of \$1,751,818 in the first nine months of 2009, compared to \$10,373,862 incurred in the same period of last year. The current period costs were incurred primarily on the La Preciosa property with costs on this property amounting to \$1,651,715. The Company also incurred exploration costs of \$38,351 on the Santa Monica property, \$47,172 on the San Juan property and \$14,580 to conduct due diligence on other properties. Of the exploration costs incurred in the first nine months, drilling costs were \$555,210, geological costs were \$573,737, assay costs were \$207,988, site costs were \$257,000 and general exploration costs totalled \$157,883.

In the first nine months of 2009, the Company incurred \$6,303,410 for general expenses, up 20 per cent over those incurred in the first nine months of last year of \$5,255,868. Consulting fees of \$1,539,852 and professional fees of \$450,523 were up significantly from the prior year amounts of \$32,762 and \$172,863 respectively, both increases due to costs incurred to conclude and receive approval of the joint venture agreement with Pan American. As was the case for the quarter, investor relations costs of \$593,689 were up significantly from those incurred last year of \$402,810 due to the Company's efforts to maintain investor awareness, particularly of the Company's joint venture agreement with Pan American. Offsetting these higher costs was a lower non-cash charge of \$2,608,863 to earnings during the first nine months of 2009, for the imputed value of stock options granted to directors, officers and consultants, compared to the charge of \$3,369,394 recorded last year. As well, less travel was required to the Company's properties in Mexico this year and as a result, travel costs of \$456,922 were down 29 per cent from \$644,625 incurred in the same period of 2008. Costs in other categories were essentially consistent with those incurred in the first nine months of last year.

Overall, in the first nine months of 2009, the Company incurred a loss of \$8,070,510 or \$0.07 per share, 48 per cent lower than the loss last year of \$15,453,143 or \$0.16 per share. The decrease is attributable primarily to the significantly lower exploration costs, down 83 per cent. Higher consulting and legal fees during the period were partially offset by lower stock-based compensation expense.

Statement of Mining and Exploration Expenditures to July 31, 2009:

MINING PROPERTIES	LA PRECIOSA	SANTA MONICA	SAN JUAN	OTHER PROPERTIES	TOTAL
Balance, October 31, 2008	\$ 1,234,163	\$ 50,000	\$ 32,000	\$ -	\$ 1,316,163
Additions in the period:	-	1,480,000	226,635	-	1,706,635
Balance, July 31, 2009	\$ 1,234,163	1,530,000	\$ 258,635	\$ -	\$ 3,022,798

EXPLORATION EXPENDITURES	LA PRECIOSA	SANTA MONICA	SAN JUAN	OTHER PROPERTIES	TOTAL
YEAR TO DATE					
Drilling	\$ 555,210	\$ -	\$ -	\$ -	\$ 555,210
Geological	527,733	12,101	19,323	14,580	573,737
Assay	207,988	-	-	-	207,988
Site costs	252,800	600	3,600	-	257,000
General exploration	107,984	25,650	24,249	-	157,883
Total expenditures for the period	\$ 1,651,715	\$ 38,351	\$ 47,172	\$ 14,580	\$ 1,751,818

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(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Statement of Mining and Exploration Expenditures to July 31, 2009 (continued):

EXPLORATION EXPENDITURES	LA PRECIOSA	SANTA MONICA	SAN JUAN	OTHER PROPERTIES	TOTAL
TOTAL TO DATE					
Drilling	\$ 20,164,052	\$ 317,805	\$ 460,008	\$ -	\$ 20,941,865
Geological	2,142,215	218,368	193,796	14,580	2,568,959
Geophysical	96,712	106,740	10,343	-	213,795
Assay	3,059,301	25,111	64,521	-	3,148,933
Site costs	2,676,615	252,692	124,835	-	3,054,142
General exploration	575,515	206,247	117,221	-	898,983
Total expenditures to date	\$ 28,714,410	\$ 1,126,963	\$ 970,724	\$ 14,580	\$ 30,826,677

Restatement of Prior Periods due to Correction:

During fiscal 2008, the Company identified that it had inappropriately accounted for stock options issued to non-employees during the years ended October 31, 2005, 2006 and 2007. As a result, the Company restated its financial statements for these periods. The overall effect of this restatement on the financial statements for these years represented additional stock-based compensation expense aggregating \$776,543.

Selected Annual Financial Information:

	For the year ended October 31, 2008	For the year ended October 31, 2007 (Restated)	For the year ended October 31, 2006 (Restated)
Total revenues	Nil	Nil	Nil
Loss before discontinued operations and extraordinary items:			
(i) total for the year	21,549,564	12,925,523	7,251,019
(ii) per share	0.21	0.16	0.13
(iii) per share fully diluted	0.21	0.16	0.13
Net loss:			
(i) total for the year	21,549,564	12,925,523	7,251,019
(ii) per share	0.21	0.16	0.13
(iii) per share fully diluted	0.21	0.16	0.13
Total assets	6,445,921	10,364,538	4,624,252
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends declared per-share	Nil	Nil	Nil

The loss for 2008 includes approximately \$14.7 million in drilling, up \$6.8 million, and other exploration costs incurred primarily on the La Preciosa property. The loss also includes \$4,222,910 in stock-based compensation for options granted in 2008 and prior years.

The loss for 2007 includes approximately \$7.9 million in drilling, up \$3.2 million, and other exploration costs incurred primarily on the La Preciosa property. The loss also includes \$3,124,089 in stock-based compensation for options granted in 2007 and prior years.

The loss for 2006 includes approximately \$4.7 million in drilling, up \$2.9 million, and other exploration costs incurred on the La Preciosa property. The loss also includes \$935,441 in stock-based compensation for options granted in 2006 and prior years.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
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Selected Quarterly Financial Information:

	4th Quarter Ended October 31, 2009	3rd Quarter Ended July 31, 2009	2nd Quarter Ended April 30, 2009	1st Quarter Ended January 31, 2009
(a) Revenue		Nil	Nil	Nil
(b) Loss for period		\$ 2,787,248	\$ 3,154,383	\$ 2,128,879
(c) Loss per share		\$ 0.02	\$ 0.03	\$ 0.02
	4th Quarter Ended October 31, 2008	3rd Quarter Ended July 31, 2008	2nd Quarter Ended April 30, 2008	1st Quarter Ended January 31, 2008
(a) Revenue	Nil	Nil	Nil	Nil
(b) Loss for period	\$ 6,096,421	\$ 5,893,127	\$ 6,316,447	\$ 3,243,569
(c) Loss per share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.03
	4th Quarter Ended October 31, 2007	3rd Quarter Ended July 31, 2007	2nd Quarter Ended April 30, 2007	1st Quarter Ended January 31, 2007
(a) Revenue	Nil	Nil	Nil	Nil
(b) Loss for period	\$ 4,078,252	\$ 3,026,578	\$ 3,742,498	\$ 2,078,195
(c) Loss per share	\$ 0.04	\$ 0.04	\$ 0.05	\$ 0.03

In an effort to preserve working capital, in December 2008, the Company halted its drill program on the La Preciosa property and consequently, drilling and other exploration costs decreased from \$1.2 million for the first quarter of 2009 to \$0.5 million and \$0.1 million for the second quarter and third quarter respectively. Stock-based compensation recorded to reflect the computed value of stock options that vested was \$0.5 million in the first quarter, \$0.3 million in the second quarter and \$1.9 million in the third quarter. Other operating expenses amounted to approximately \$0.4 million in the first quarter of 2009, \$2.5 million in the second quarter when the Company incurred significant consulting and legal fees related to reaching a joint venture agreement with Pan American, and \$0.8 million in the third quarter.

Continuing the general trend of prior years, the level of drilling and other exploration activity increased through fiscal 2008, from \$2.2 million in the first quarter to \$3.8 million in the second quarter, \$4.4 million in the third quarter and \$4.3 million in the fourth quarter, incurred primarily by the continued drilling on the La Preciosa property. Stock-based compensation recorded to reflect the computed value of stock options that vested was \$0.5 million in the first quarter, \$2.0 million in the second quarter and \$0.9 million in the third and fourth quarters each. Other operating expenses amounted to approximately \$0.6 million in each of the quarters.

During 2007 drilling and other exploration costs increased throughout the year, from \$1.4 million in the first quarter to \$2.3 million in the fourth quarter, as the Company contracted a third and then a fourth drill rig and also expanded its drill program to the San Juan property. For all four quarters of 2007, a major component of general operating expenses was the charge for stock-based compensation recorded to reflect the computed value of stock options that vested in the year, which fluctuated between \$0.2 and \$1.2 million over the quarters. Other operating expenses were fairly consistent throughout the year and averaged \$0.5 million.

ORKO SILVER CORP.
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QUARTERLY REPORT TO SHAREHOLDERS
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(Expressed in Canadian Dollars)

Capital Stock:

Authorized: An unlimited number of Common shares without par value.

	Number of Shares	Amount \$
Balance at October 31, 2007	96,798,278	31,847,472
Issued during the period		
For cash:		
Brokered private placement, net of share issue costs	7,320,000	10,890,231
Exercise of options	1,625,000	512,350
Exercise of warrants	1,984,438	1,671,887
Transferred from contributed surplus:		
Exercise of options	—	471,611
Exercise of warrants	—	493,510
Balance at October 31, 2008	107,727,716	45,887,061
Issued during the period		
For cash:		
Non-brokered private placement, net of share issue costs	4,000,000	4,916,650
Exercise of options	125,000	69,250
For property:		
Issued for Santa Monica property	2,000,000	1,480,000
Issued for San Juan property	306,263	226,635
Transferred from contributed surplus:		
Exercise of options	—	87,694
Balance at July 31, 2009	114,158,979	52,667,290
Issued during the period		
For cash:		
Exercise of options	100,000	45,000
Transferred from contributed surplus:		
Exercise of options	—	53,667
Balance at September 21, 2009	114,258,979	52,765,957

On June 12, 2008, the Company issued 7,320,000 common shares at \$1.65 per share for gross proceeds of \$12,078,000 under a brokered private placement. The Company issued 439,200 broker warrants as a commission. Each whole broker warrant entitles the holder thereof to purchase one additional common share before June 12, 2010 at a price of \$1.65 per common share. The fair value of the warrants was computed to be \$265,980 using the Black-Scholes option-pricing model and was recorded as a non-cash share issuance cost. The Company paid cash commissions of \$724,680 and incurred other cash share issuance costs of \$197,109.

Coincident with the formation of the La Preciosa project joint venture, on April 21, 2009, the Company issued 4,000,000 common shares to Pan American at \$1.25 per share for gross proceeds of \$5,000,000 under a non-brokered private placement. The Company incurred cash share issuance costs of \$83,350.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Options:

The Company has a plan to grant stock options to directors, officers, employees and consultants of the Company. On April 2, 2009, the Company adopted an amendment to its 20% Fixed Plan, which was subsequently approved by shareholders at its Annual General Meeting of Shareholders to grant options to directors, officers, employees, contractors and consultants of the Company. Under the amended plan, the board of directors has the discretion to issue the equivalent of up to 21,570,543 shares. 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, 2007 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2007	13,370,000	0.69
Granted	5,530,000	1.76
Exercised	(1,625,000)	0.32
Cancelled	(150,000)	1.52
Forfeited	(25,000)	1.79
Outstanding, October 31, 2008	17,100,000	1.06
Granted	950,000	0.51
Exercised	(125,000)	0.55
Forfeited	(500,000)	0.53
Outstanding, July 31, 2009	17,425,000	0.53
Granted	100,000	0.78
Exercised	(100,000)	0.45
Outstanding, September 21, 2009	17,425,000	0.53

On November 21, 2008, the Company announced its intent to reduce the exercise price of 13,190,000 incentive stock options as to 6,595,000 options to \$0.45 per share and 6,595,000 options to \$0.60 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. Accordingly each of the subject option holders will have the exercise price of half their options reduced to \$0.45 per share and the other half to \$0.60 per share. There has been no change to the expiry date of the options. The Company received TSX Venture Exchange acceptance on January 12, 2009 and thus reduced the exercise price for 4,175,000 options not subject to disinterested shareholder approval. On May 7, 2009, the Company received disinterested shareholder approval for the remaining 9,015,000 options and thus reduced the exercise price for these options.

On February 2, 2009, the Company announced its intent to reduce the exercise price of 525,000 stock options from \$1.55 to \$0.61 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of insiders of the Company, the approval of disinterested shareholders. The Company received TSX Venture Exchange acceptance on March 11, 2009 and thus reduced the exercise price for 325,000 options not subject to disinterested shareholder approval. On May 7, 2009, the Company received disinterested shareholder approval for the remaining 200,000 options and thus reduced the exercise price for these options.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Options (continued):

The following tables summarize the stock options outstanding and exercisable at July 31, 2009 and September 21, 2009:

Exercise Prices	Number of Shares July 31, 2009	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price \$
\$0.13 - \$0.25	175,000	0.4	0.20
\$0.45 - \$0.47	7,145,000	3.3	0.45
\$0.53 - \$0.58	3,010,000	1.9	0.55
\$0.60 - \$0.63	6,945,000	3.2	0.60
\$0.80	150,000	2.8	0.80
	17,425,000	3.0	0.53

Exercise Prices	Number of Shares September 21, 2009	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price \$
\$0.13 - \$0.25	175,000	0.3	0.20
\$0.45 - \$0.47	7,045,000	3.2	0.45
\$0.53 - \$0.58	3,010,000	1.8	0.55
\$0.60 - \$0.63	6,945,000	3.0	0.60
\$0.78 - \$0.80	250,000	2.7	0.79
	17,425,000	2.8	0.53

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Warrants:

Warrant activity since October 31, 2007 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2007	3,392,188	0.91
Issued	439,200	1.65
Exercised	(1,984,438)	0.84
Outstanding, October 31, 2008, July 31, 2009	1,846,950	1.15
Expired	(1,407,750)	1.00
Outstanding, September 21, 2009	439,200	1.65

The following table summarizes the warrants outstanding at July 31, 2009 and September 21, 2009:

Number of Shares		Exercise Price	Issue Date	Expiry Date
July 31, 2009	September 21, 2009			
1,407,750	–	\$1.00	August 24, 2007	August 24, 2009
439,200	439,200	\$1.65	June 12, 2008	June 12, 2010
1,846,950	439,200			

Liquidity:

The Company's financial position decreased from the opening level of \$3,424,871, comprised of cash on hand of \$424,871 and \$3,000,000 in short-term investments to the period-end level of \$2,499,457, comprised of cash on hand of \$199,457 and \$2,300,000 in short-term investments.

On April 21, 2009, the Company issued 4,000,000 common shares at \$1.25 per share for gross proceeds of \$5,000,000 under a non-brokered private placement. The Company incurred cash share issuance costs of \$83,350. In addition, the Company issued 125,000 shares on the exercise of options receiving proceeds of \$69,250, for total cash received from the issuance of common shares of \$4,985,900.

Offsetting this cash inflow, the loss for the first nine months of \$8,070,510, after adjusting for non-cash items and changes in non-cash working capital accounts, amounted to a \$5,931,867 cash requirement.

To partially fund this cash requirement, the Company redeemed \$700,000 from its short-term investments in the period.

In summary, the aggregate net cash inflows from financing activities during the first nine months of 2009, which totalled \$4,985,900, and the drawdown of the Company's short-term investments by \$700,000 essentially funded the adjusted cash operating loss for the period of \$5,931,867. The shortfall, amounting to \$225,414, decreased the opening financial position such that cash on hand of \$199,457 and short-term investments of \$2,300,000 remained at the end of the period available to fund the Company's ongoing corporate and exploration activities.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Commitments:

Office Leases:

- (a) 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. During fiscal 2009, the landlord approached the Company with a request to vacate the space so it could be redeveloped for other purposes. As a result, this joint lease agreement was terminated effective September 30, 2009 and the Company was released of all obligations.
- (b) On April 16, 2007, the Company entered into a lease agreement, amended June 1, 2007, to lease office premises commencing June 1, 2007 for a term of three years. Due to the termination of the above mentioned joint lease agreement, management determined that it would be cost effective to consolidate the Company's office space and negotiated the termination of this lease agreement as well, effective September 30, 2009.
- (c) On June 16, 2009, the Company entered into a lease agreement to lease office premises commencing October 1, 2009 and expiring on March 30, 2013. The Company's gross lease payments, including operating costs and property taxes, for the remaining term of the lease are as follows:

\$

2009	nil
2010	244,620
2011	244,620
2012	244,620
2013	101,925

The Company subleases these premises to two companies having directors in common with the Company. The Company expects to recover approximately two-thirds of the above amounts over the remaining term of the lease.

Corporate Summary:

At this time, management believes it has adequate working capital to meet its short-term corporate operating obligations and the new commitment noted above with respect to its leasing obligations.

While there has been great volatility in the stock markets, which would raise questions about the Company's ability to raise new capital and thereby sustain or expand its operations, the Company has received indications from current and interested investors of their willingness to invest further in the Company due to its progress to date and the formation of the joint venture with Pan American to develop the La Preciosa project whereby Pan American will fund essentially all project expenditures for the remainder of the year. Furthermore, this year, there have been numerous public financings completed by major mining companies and by junior companies, adding further support to this market-receptive perspective. However, there is no certainty that the Company will be successful in its efforts to raise capital if needed, which would cause the Company to reconsider its viability as a going concern at that time and how best to sustain its reduced level of operations, pending a return to better market conditions where a financing could be completed.

Capital Resources:

The Company had \$2,314,000 cash as of September 21, 2009. The Company will continue to seek capital, as needed, through public markets by issuing common shares pursuant to private placements.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Off Balance Sheet Arrangements:

The Company has no material off balance sheet arrangements in place.

Related Party Transactions:

(a) Advances to Related Parties

As at July 31, 2009, advances to related parties consists of \$31,920 (2008 – \$15,059) advanced to the President, the Chief Financial Officer, Secretary and directors for travel expenses to be incurred on behalf of the Company. These amounts are non-interest bearing and will be applied in the future against travel expenses incurred on behalf of the Company.

(b) Due to Related Parties

As at July 31, 2009, due to related parties consists of \$nil (2008 - \$13,709) payable to officers of the Company for travel expenses incurred on behalf of the Company and \$nil (2008 - \$22,998) 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 nine months ended July 31, 2009 the Company entered into the following transactions with related parties:

- i) A company controlled by the Vice-President of Exploration incurred \$128,290 (2008 – \$145,513) in exploration expenditures on behalf of the Company for which the company was subsequently reimbursed.
- ii) Companies controlled by the President, Executive Vice-President, Chief Financial Officer and Secretary earned management service fees related to their position of \$263,340 (2008 – \$242,900).
- iii) The Company subleases office premises to related parties.

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.

Investor Relations:

In July 2008, the Company retained the services of two firms to provide corporate finance advisory services to the Company. The agreement with Raifin S.A., based in Switzerland, is subject to termination with 60 days notice. The agreement with Arcon Group Inc., based in Montreal, is subject to termination with 30 days notice.

In May 2009, the Company retained the services of a firm to provide investor relations services to the Company. The agreement with Incorporated Communications Services, based in Los Angeles, California, is for a period of six months and may, at the Company's option, be extended following the completion of the initial term.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Adoption of New Accounting Standards and Developments:

- (a) CICA 3064, "Goodwill and Intangible Assets" and amended CICA 1000, "Financial Statement Concepts"

These standards clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The Company adopted these standards on November 1, 2008. The adoption of these standards did not have a significant impact on the Company's financial statements.

- (b) CICA 1400, "General Standards of Financial Statement Presentation"

In May 2007, the CICA issued amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. The Company adopted this standard on November 1, 2008. The adoption of this standard did not have a significant impact on the Company's financial statements.

- (c) CICA 1582, "Business Combinations", CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-controlling Interest"

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning November 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

- (d) International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The Company continues its assessment of the impact of adopting IFRS and has not yet determined its effect on its financial statements. The Company's staff members have completed coursework focused on the application of IFRS requirements related to the mining industry, and are currently completing the Company's detailed assessment of its accounts. As previously reported, management's assessment to date indicates that there will be revisions to the Company's disclosures on adoption of IFRS, but there will be no major financial impact or accounting changes. However, it is recognized that the IFRS requirements, in particular related to the mining industry, are evolving in advance of the transition date, and such changes may alter this preliminary assessment.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Critical Accounting Estimates:

In the preparation of these financial statements, the Company is required to make estimates and assumptions, which impact on the accounting and reporting of its assets, liabilities, revenues and expenses in the period. The critical accounting estimates arise in relation to the following:

(a) Mineral Properties

The initial value attributed to a property on acquisition and the ongoing reported value reflect management's assessment of the continuing interest it has for performing additional work and incurring the related additional expenditure to advance the information base on which it will determine the potential magnitude of mineralization and ultimately, whether it has economic value. If information is learned which, in management's view, impairs the ongoing level of its interest and consequent plans for further project work, the carrying value of each of the Company's mineral properties, on an individual basis, is adjusted to reflect the level of impairment experienced. Such information on a property would include a significant unfavourable change in the political, legal, regulatory, or title status, the environmental conditions, property accessibility, or disappointing geophysical, geochemical or assay results. The impairment adjustment would be computed, based on management's assumptions, estimates and judgment, to reduce the carrying value of each impaired property to an appropriate value based on the information, and ultimately to the net realizable value to the Company on sale or abandonment.

(b) Asset Retirement Obligations

The Company routinely assesses whether there is any need for property remediation on a property-by-property basis to determine whether there will be a need for future costs to be incurred when a property is abandoned. The Company relies on its professional, technical advisors to provide these assessments, drawing from their expertise, historical documentation and experience. To date, there have been no costs identified for future expenditure with respect to any of the Company's properties.

(c) Impairment of Long-Lived Assets

The Company routinely assesses whether the carrying values of its long-lived assets continue to be appropriate and have not been impaired. When an impairment has been identified for an individual asset or group of assets, the individual or group carrying value is adjusted to reflect the degree of impairment experienced, and ultimately to reflect the net realizable value to the Company on sale or abandonment.

(d) Income Taxes

The Company calculates its income tax liabilities in accordance with prevailing income tax regulations in Canada and other jurisdictions in which it operates, and in doing so, makes assumptions, interpretations and estimates on the treatment, timing and eligibility of various costs in the determination. The Company also makes interpretations of the regulations and their applicability to the Company's circumstances. Finally, the Company makes assumptions and estimates on the overall tax impact on the Company's consolidated operations.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Critical Accounting Estimates (continued):

(e) Stock-Based Compensation

The Company awards options as compensation to its directors, officers, staff and consultants, and determines the expense associated with such option grants using the Black-Scholes pricing model in accordance with Canadian accounting practice. The application of this model requires that a number of input variables be determined by the Company for each reporting period using historical data and assumptions and estimates.

Risks and Uncertainties:

(a) Exploration and Development Risks:

Resource exploration and development has inherently considerable risk and is therefore highly speculative in nature. The Company's exploration activity to date involves procedures which are not definitive and are subject to considerable interpretation and inference, and consequently the results reported are subjective in nature and may not reflect actual mineralization present. Further, there is no indication that the success achieved to date will continue, and that the Company will be able to report sufficient mineralization for there to be economically recoverable quantities of minerals determined at some point in the future.

In addition, the Company's operations rely on the availability of skilled labour and materials in the region of its operations, and there can be no assurance that these resources will continue to be available and available at cost levels which will be affordable to the Company.

(b) Uncertainty of Title Risks:

The Company has obtained clear title of its properties and has received assurances from its joint venture partners that they also hold clear title to their properties under our joint venture agreements. However, the procedures taken to ensure clear title may not be sufficient, and future challenge of title may result, due to unregistered prior entitlements or prior regulatory non-compliance.

(c) Environmental Risks:

The Company manages its exploration and development activities to minimize the environmental damage at all times, and it endeavours to remediate the sites and facilities immediately upon withdrawal from any particular location to the full satisfaction of landowners and governmental requirements. However, there remains the risk that some aspect of our activity may have caused or will cause environmental damage, and the Company will need to further remediate the land and facilities and incur added costs in so doing.

(d) Political and Regulatory Risks:

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining regulations. Consequently, the Company is exposed to a large array of conditions to satisfy on a daily basis in its activities, and considerable risk exists that the Company will fail to be fully compliant in all respects in this political and regulatory environment.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Risks and Uncertainties (continued):

(e) Foreign Exchange Risks:

The Company incurs most of its expenditures in foreign countries and consequently is exposed to foreign exchange risks due to changes in the value of the Canadian dollar with respect to these foreign currencies. A weakening of the Canadian dollar with respect to these foreign currencies would increase the costs of the Company's activities in these foreign jurisdictions. The Company does not hedge its exposures to movements in the exchange rates at this time.

(f) Financial Risks:

The Company has financed its exploration and development activities through the sale of its common shares. The Company has a history of losses from its activities to date and has incurred an operating loss from its current operations this year. The Company does not expect to earn revenues in the foreseeable future, which would offset the costs of its exploration and development activities, and consequently expects to continue to report operating losses for the foreseeable future. The Company plans to continue to finance its day-to-day operations through the sale of common shares of its capital. However, there is no assurance that the Company will be successful in selling its common shares to the investing public, and thereby raise sufficient capital to continue its activities. Further, there is no assurance that the capital markets will be available, and will support the sale of resource-based common shares in the future.

(g) Mineral Price Risks:

Mineral prices, in particular gold and silver, are volatile, and have risen sharply in recent periods. The prices are subject to market supply and demand, political and economic factors, and commodity speculation, all of which can interact with one another to cause significant price movement from day to day and hour to hour. These price movements can affect the Company's ability to operate and to raise financing through the sale of its common shares.

Financial Instruments:

(a) Fair Value of Financial Instruments

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

(b) Credit Risk

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

The Company's receivables consist of \$123,382 of value added taxes ("VAT") receivable from an agency of the Canadian government and \$115,224 of VAT receivable from an agency of the Mexican government and \$1,663 of interest receivable from a major Canadian financial institution.

ORKO SILVER CORP.
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2009 AND 2008
(Expressed in Canadian Dollars)

Financial Instruments (continued):

(c) Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and purchasing short-term investments with early redemption features. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

(d) Currency Risk

As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the Mexican peso. Fluctuations in the exchange rates between this currency and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

At July 31, 2009, the Company has cash and cash equivalents of \$58,960 and receivables of \$115,224 denominated in 721,226 and 1,409,464 Mexican pesos, respectively. Based on these balances, a strengthening (weakening) of the Canadian dollar against the Mexican peso of 10% would result in an increase (decrease) in the Company's loss and comprehensive loss of approximately \$17,500.

(e) Interest Rate Cash Flow Risk

The Company's short-term investments are subject to interest rate price risk as they carry variable rates of interest. The Company does not engage in any hedging activity to mitigate this risk.

Based on bank deposit balances at July 31, 2009, a hypothetical change of 1% in the interest rate for the upcoming quarter would affect loss and comprehensive loss for the upcoming quarter by \$500.

(f) Commodity Price Risk

Mineral prices, in particular gold and silver, are volatile, and have risen and fallen sharply in recent years. The prices are subject to market supply and demand, political and economic factors, and commodity speculation, all of which can interact with one another to cause significant price movement from day to day and hour to hour. These price movements can affect the Company's ability to operate and to raise financing through the sale of its common shares.

Subsequent Events:

None.

Additional information:

Additional information relating to the Company may be accessed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.