

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**

**Financial Statements**  
**October 31, 2009 and 2008**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Auditors' Report to the Shareholders</b>	1
<b>Financial Statements</b>	
Balance Sheets	2
Statements of Operations	3
Statements of Shareholders' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 25

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF ORKO SILVER CORP. (An Exploration Stage Company)

We have audited the balance sheet of Orko Silver Corp. (an exploration stage company) as at October 31, 2009 and the statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at October 31, 2008 and for the year then ended were audited by another firm of auditors who expressed an opinion without reservation on those statements in their report dated February 11, 2009.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
January 22, 2010

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Balance Sheets**  
**October 31**

	<b>2009</b>	<b>2008</b>
		(note 13)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 212,541	\$ 424,871
Short-term investment (note 3(b))	1,802,663	3,030,963
Receivables	42,700	1,054,409
Prepaid expenses and deposits	107,355	175,471
Advances to related parties (note 9)	29,070	15,059
	2,194,329	4,700,773
<b>Deposits</b>	36,333	27,154
<b>Property and Equipment</b> (note 4)	378,291	401,831
<b>Investment</b> (note 5)	3,303,222	-
<b>Mineral Properties</b> (note 6)	-	1,316,163
	\$ 5,912,175	\$ 6,445,921
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 52,555	\$ 1,290,447
Due to related parties (note 9)	4,624	36,707
	57,179	1,327,154
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 7)	52,985,254	45,887,061
<b>Contributed Surplus</b>	13,977,636	8,171,246
<b>Deficit</b>	(61,107,894)	(48,939,540)
	5,854,996	5,118,767
	\$ 5,912,175	\$ 6,445,921

Nature of operations and going concern (note 1)  
 Commitment (note 11)  
 Subsequent events (note 14)

Approved by the Board:

"Gary Cope"  
 ..... Director  
 Gary Cope

"Rick Sayers"  
 ..... Director  
 Rick Sayers

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Statements of Operations**  
**Years Ended October 31**

	<b>2009</b>	<b>2008</b>
<b>Expenses</b>		
Amortization	\$ 23,540	\$ 29,104
Bank charges and interest	9,226	16,171
Consulting fees	1,551,614	45,627
Exploration (note 6)	1,737,493	14,658,436
Insurance	8,380	10,537
Investor relations	760,488	548,191
Management fees (note 9)	349,490	329,675
Office and miscellaneous	291,821	217,391
Professional fees	673,333	205,980
Rent	87,720	73,560
Repairs and maintenance	54,210	71,248
Stock-based compensation (note 7(d))	4,302,723	4,222,910
Telephone and communications	52,243	59,334
Transfer agent and filing fees	51,064	57,547
Travel and entertainment	713,711	952,532
	<b>10,667,056</b>	<b>21,498,243</b>
<b>Other Items</b>		
Interest income	(12,826)	(173,866)
Foreign exchange loss	25,223	225,187
Share of loss on equity accounted investment (note 5)	1,488,901	-
	<b>1,501,298</b>	<b>51,321</b>
<b>Net Loss for Year and Comprehensive Loss for Year</b>	<b>\$ 12,168,354</b>	<b>\$ 21,549,564</b>
<b>Loss Per Share</b>		
- basic and diluted	\$ 0.11	\$ 0.21
<b>Weighted Average Number of Common Shares</b>		
<b>Outstanding</b>	<b>110,815,000</b>	<b>101,233,000</b>

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Statements of Shareholders' Equity**  
**Years Ended**

	Common Shares #	Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance, October 31, 2007</b>	96,798,278	31,847,472	4,647,477	(27,389,976)	9,104,973
Issued for cash:					
Brokered private placement, net of share issue costs (note 7(b)(ii))	7,320,000	10,890,231	-	-	10,890,231
Exercise of options	1,625,000	512,350	-	-	512,350
Exercise of warrants	1,984,438	1,671,887	-	-	1,671,887
Warrants issued for services:					
Finders' fees for private placement	-	-	265,980	-	265,980
Transferred from contributed surplus:					
Exercise of options	-	471,611	(471,611)	-	-
Exercise of warrants	-	493,510	(493,510)	-	-
Stock-based compensation			4,222,910	-	4,222,910
Net loss and comprehensive loss	-	-	-	(21,549,564)	(21,549,564)
<b>Balance, October 31, 2008</b>	107,727,716	45,887,061	8,171,246	(48,939,540)	5,118,767
Issued for cash:					
Non-brokered private placement, net of share issue costs (note 7(b)(i))	4,000,000	4,916,650	-	-	4,916,650
Exercise of options	425,000	209,250	-	-	209,250
Issued for property:					
Issued for the Santa Monica property (note 6(b))	2,000,000	1,480,000	-	-	1,480,000
Issued for the San Juan property (note 6(c))	306,263	226,635	-	-	226,635
Transferred from contributed surplus:					
Exercise of options	-	265,658	(265,658)	-	-
Stock-based compensation			4,302,723	-	4,302,723
Share of contributed surplus from investment (note 5)			1,769,325	-	1,769,325
Net loss and comprehensive loss	-	-	-	(12,168,354)	(12,168,354)
<b>Balance, October 31, 2009</b>	114,458,979	52,985,254	13,977,636	(61,107,894)	5,854,996

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Statements of Cash Flows**  
**Years Ended October 31**

	<b>2009</b>	<b>2008</b>
		(note 13)
<b>Operating Activities</b>		
Net loss for year	\$ (12,168,354)	\$ (21,549,564)
Items not involving cash		
Accrued interest on short-term investment	28,300	78,292
Amortization	23,540	29,104
Stock-based compensation expense	4,302,723	4,222,910
Share of loss on equity accounted investment	1,488,901	-
Unrealized loss on foreign exchange	5,334	-
	(6,319,556)	(17,219,258)
Changes in non-cash working capital items		
Receivables	1,011,709	(697,330)
Prepaid expenses and deposits	58,937	(81,754)
Advances to related parties	(14,011)	4,573
Accounts payable and accrued liabilities	(1,237,892)	38,765
Due to related parties	(32,083)	(42,691)
<b>Cash Used in Operating Activities</b>	(6,532,896)	(17,997,695)
<b>Investing Activities</b>		
Purchase of short-term investments	(3,000,000)	(10,000,000)
Redemption of short-term investments	4,200,000	14,000,000
<b>Cash Provided by Investing Activities</b>	1,200,000	4,000,000
<b>Financing Activities</b>		
Proceeds from common shares issued, net of share issue costs	5,125,900	13,340,448
<b>Cash Provided by Financing Activities</b>	5,125,900	13,340,448
<b>Foreign Exchange Gain (Loss) on Cash Held in Foreign Currency</b>	(5,334)	46,383
<b>Decrease in Cash During the Year</b>	(212,330)	(610,864)
<b>Cash, Beginning of Year</b>	424,871	1,035,735
<b>Cash, End of Year</b>	\$ 212,541	\$ 424,871
<b>Supplemental Information</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Shares issued for property	\$ 1,706,635	\$ -
Warrants issued for share issue costs	\$ -	\$ 265,980
Share of contributed surplus of equity accounted investment	\$ 1,769,325	\$ -

See notes to financial statements.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Orko Silver Corp. (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 in Mexico through its investment. The Company is in the exploration stage and has not yet determined whether any of the properties it has an investment in contain ore reserves that are economically recoverable.

As at October 31, 2009, the Company had working capital of \$2,137,150 (2008 - \$3,373,619) and accumulated deficit of \$61,107,894 (2008 - \$48,939,540) since inception. The continuance of the Company's operations is dependent on obtaining sufficient additional financing and the recoverability of the Company's investment, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals.

These 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. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded assets amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The functional and reporting currency of the Company is the Canadian dollar.

**(a) Basis of Presentation**

Prior to the Company signing a definitive shareholders' agreement with Pan American Silver Corp. ("Pan American") on October 23, 2009 (note 5), Proyectos Mineros La Preciosa S.A. de C.V. ("Proyectos Mineros") (formerly Orko Silver de Mexico S.A. de C.V.) was a wholly-owned subsidiary in Mexico and its accounts were consolidated for the purpose of preparing the Company's financial statements. Subsequent to October 23, 2009, the Company's investment in Proyectos Mineros is an investment where only significant influence exists as its equity interest was reduced to 45%. Accordingly, the accounting for Proyectos Mineros was changed to the equity method of accounting on October 23, 2009, but with effect from April 13, 2009, when a binding letter of intent with Pan American was signed.

**(b) Investments**

Investments in which the Company has the ability to exert significant influence but does not have control are accounted for using the equity method of accounting whereby the original cost of the investment is adjusted annually for the Company's share of earnings, losses, dividends and other changes to the investment's capital structure during the current year.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Property and Equipment**

Property and equipment are recorded at cost and amortized over their estimated useful life on the declining balance basis at the following annual rates:

Building	5%
Automobile	30%
Computer hardware	30%

**(d) Mineral Properties**

The Company capitalizes acquisition costs related to investments in mineral properties on a property-by-property basis. Exploration costs are expensed as incurred. Mineral property acquisition costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, or the Company's assessment of its inability to sell the property for an amount exceeding the acquisition cost, a provision is made for the impairment in value.

After a mineral property interest has been assessed as commercially feasible, expenditures specific to the property are capitalized. In deciding when a mineral property is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained.

These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is recognized in income.

**(e) Asset Retirement Obligation ("ARO")**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include collectibility of receivables, the carrying value of investments, the fair value of financial instruments, rates for amortization of property and equipment, determination of AROs, balances of accrued liabilities, determination of the valuation allowance for future income tax assets and the variables used in the calculation of stock-based compensation. While management believes these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**(g) Loss Per Share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**(h) Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Financial Instruments**

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

**(j) Comprehensive Income (Loss)**

Comprehensive income (loss) is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of gains and losses affecting shareholders' equity that under GAAP are excluded from net income (loss). The Company has no items of other comprehensive income (loss) in any period presented. Therefore, net income (loss) as presented in the Company's statements of operations equals comprehensive income (loss).

**(k) Non-Monetary Transactions**

Shares issued for consideration other than cash are valued at the quoted market price at the date of issuance.

**(l) Foreign Currency Translation**

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Expenses, at the rate of exchange in effect at the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net income (loss).

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(m) **Stock-Based Compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earliest of the date at which the counterparty performance is completed, the date the performance commitment is reached and the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(n) **Adoption of New Accounting Standards and Developments**

- (i) Goodwill and Intangible Assets (Section 3064) and Financial Statement Concepts (amended Section 1000)

These sections establish revised standards for the recognition, measurement, presentation and disclosure of goodwill and 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.

- (ii) Going Concern

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") amended Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of the Company's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the company is not considered a going concern. The Company adopted this standard on November 1, 2008. The Company's accounting policies were already in accordance with the requirements of the amended section and there was no effect on the Company's financial statements.

- (iii) Measurement of Fair Value

CICA Handbook Section 3862.27 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and then lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) **Adoption of New Accounting Standards and Developments (Continued)**

(iii) Measurement of Fair Value (Continued)

- (a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- (c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Additional disclosure on the measurement of fair value of financial instruments has been provided in note 3(a).

(o) **Future Accounting Pronouncements**

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after November 1, 2011. The effective date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ended October 31, 2011. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(o) **Future Accounting Pronouncements (Continued)**

(ii) **Business Combinations (Continued)**

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

**3. FINANCIAL INSTRUMENTS**

The Company has designated its cash and short-term investment as held-for-trading; advances to related parties as loans and receivables; and accounts payable and accrued liabilities and due to related parties as other liabilities.

(a) **Fair Value**

The carrying values of cash, short-term investment, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The fair values of advances to related parties and due to related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length.

The Company's measurement of fair value of financial instruments at October 31, 2009 in accordance with the fair value hierarchy is as follows:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Short-term investment	\$ 1,802,663	\$ 1,802,663	\$ -	\$ -

The Company's short-term investment is classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

As the carrying values of the Company's remaining financial instruments approximate their fair value, disclosure is not made of their level in the fair value hierarchy.

(b) **Credit Risk**

The Company is exposed to credit risk with respect to its cash, short-term investment and advances to related parties. This risk is minimized as the cash and short-term investment have been placed with a major Canadian financial institution. The Company is not exposed to credit risk on its receivables as it consists of amounts due from government agencies.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**3. FINANCIAL INSTRUMENTS (Continued)**

(b) **Credit Risk (Continued)**

Concentration of credit risk exists with respect to the Company's cash and short-term investment as all amounts are held at a major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	<b>2009</b>	<b>2008</b>
Bank accounts	\$ 212,541	\$ 424,871
Short-term investment	1,802,663	3,030,963
	<b>\$ 2,015,204</b>	<b>\$ 3,455,834</b>

The short-term investment currently earns interest at 0.30% and matures on May 3, 2010.

(c) **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company has sufficient cash and short-term investment at October 31, 2009 in the amount of \$2,015,204 (2008 - \$3,455,834) in order to meet its short-term business requirements. At October 31, 2009, the Company had accounts payable and accrued liabilities of \$52,555 (2008 - \$1,290,447) and due to related parties of \$4,624 (2008 - \$36,707), which are due in the first quarter of fiscal 2010.

(d) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) **Interest rate risk**

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**3. FINANCIAL INSTRUMENTS (Continued)**

(d) **Market Risk (Continued)**

(i) Interest rate risk (Continued)

The Company's cash and short-term investment consist of cash held in bank accounts and a guaranteed investment certificate that earns interest at 0.30%. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of October 31, 2009. Future cash flows from interest income on cash and short-term investment will be affected by interest rate fluctuations. At October 31, 2009, a hypothetical change of 1% in the interest rate would have an \$18,000 effect on net income and comprehensive income.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

**4. PROPERTY AND EQUIPMENT**

				<b>2009</b>
		<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$	113,024	-	\$ 113,024
Building		270,928	31,129	239,799
Automobile		33,342	17,650	15,692
Computer hardware		34,089	24,313	9,776
	\$	451,383	\$ 73,092	\$ 378,291
				<b>2008</b>
		<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Land	\$	113,024	-	\$ 113,024
Building		270,928	18,505	252,423
Automobile		33,342	10,926	22,416
Computer hardware		34,089	20,121	13,968
	\$	451,383	\$ 49,552	\$ 401,831

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**5. INVESTMENT**

Prior to April 13, 2009, the Company owned a 100% equity interest in Proyectos Mineros, which was a consolidated subsidiary. Proyectos Mineros holds title to the La Preciosa Project mineral properties located in Durango, Mexico, comprised of the La Preciosa, Santa Monica and San Juan properties.

On April 13, 2009, the Company signed a binding letter of intent and on October 23, 2009, a definitive shareholders' agreement with Pan American for the joint development of the La Preciosa Project properties. The terms of the shareholders' agreement allow Pan American to earn a 55% equity interest in Proyectos Mineros, and thus, the La Preciosa Project properties, by contributing 100% of the funds necessary to develop and construct an operating mine.

Upon signing of the definitive shareholders' agreement, Proyectos Mineros issued additional common shares to Pan American with the effect of diluting the Company's percentage ownership to 45%. To reflect this change to one of only significant influence, the Company's accounting for Proyectos Mineros was changed to the equity method of accounting at that time, but with effect from April 13, 2009. The shares of Proyectos Mineros held by Pan American are in escrow pending completion of Phase I and Phase II as described below.

To complete Phase I, Pan American is required to spend a minimum of US \$5,000,000 prior to April 13, 2010, of which a minimum of US \$2,500,000 must be spent to further explore the land package outside of the known resource zone. Furthermore, Pan American is required to spend an estimated additional US \$11,000,000 on the project prior to April 13, 2012 to conduct resource definition drilling, acquire necessary surface rights, obtain permits, and ultimately prepare and deliver a feasibility study.

To complete Phase II, Pan American will incur 100% of the expenditures estimated by the feasibility study for practical completion of a mine on one or more of the properties. All contributions made by Pan American for the development of the mineral properties are treated as additions to the contributed surplus account of Proyectos Mineros.

If Pan American fails to fund, or elects not to continue with the expenditures required during Phase I or Phase II, Pan American will have no further rights, interest or obligations in Proyectos Mineros and its shares, thus far held in escrow, will be surrendered and cancelled. If Pan American decides not to continue funding exploration expenditures and surrenders its shares in Proyectos Mineros after delivering a feasibility study that demonstrates a positive rate of return for the construction of a mine on the properties, then an agreement will be entered into pursuant to which Pan American will receive a cash payment equal to 1.5% of the net smelter returns ("NSR") commencing on commercial production. The Company can acquire the NSR for a cash payment of US \$8,000,000 within three years from the date Pan American surrenders its shares in Proyectos Mineros. Following completion of Phase I and Phase II, the Company and Pan American will fund their proportionate share of all costs, expenses and liabilities incurred by Proyectos Mineros.

For the period from April 13, 2009 to October 31, 2009, the following changes to the carrying value of the Company's investment in Proyectos Mineros were recorded:

Company's contribution of mineral properties (note 6)	\$	3,022,798
Share of contributed surplus		1,769,325
Share of loss on equity accounted investment		(1,488,901)
Investment, October 31, 2009	\$	3,303,222

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**5. INVESTMENT (Continued)**

During the period April 13, 2009 to October 31, 2009, Proyectos Mineros incurred a loss due to Phase I exploration activities, which was funded by Pan American's additions to contributed surplus. Changes to the carrying value of the investment were recorded to reflect the Company's proportionate share of the loss and additions to contributed surplus.

Condensed financial information for Proyectos Mineros is as follows as at and for the period ended October 31, 2009:

Balance Sheet	<b>October 31, 2009</b>	
Assets:		
Current assets	\$	558,009
Capital assets		88,493
<b>Total assets</b>	<b>\$</b>	<b>646,502</b>
<b>Liabilities</b>	<b>\$</b>	<b>14,457</b>
<b>Period from</b>		
<b>April 13, 2009 to</b>		
<b>October 31, 2009</b>		
Statement of Operations		
Exploration expenditures	\$	3,292,296
Other expenditures		16,373
<b>Net loss</b>	<b>\$</b>	<b>3,308,669</b>

**6. MINERAL PROPERTIES**

The Company's mineral properties are as follows:

	La Preciosa	Santa Monica	San Juan	La Preciosa Project Total
Balance, October 31, 2007 and 2008	\$ 1,234,163	\$ 50,000	\$ 32,000	\$ 1,316,163
Acquisition costs	-	1,480,000	226,635	1,706,635
De-recognition of mineral properties on ceasing to consolidate investment (note 5)	(1,234,163)	(1,530,000)	(258,635)	(3,022,798)
<b>Balance, October 31, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**6. MINERAL PROPERTIES (Continued)**

Exploration expenditures on mineral properties for the years ended October 31, 2009 and 2008 are as follows:

	<b>La Preciosa Project Total</b>	
	<b>2009</b>	<b>2008</b>
Drilling	\$ 555,210	10,515,567
Geological	562,967	1,100,865
Assay	199,032	1,583,621
Site costs	257,000	1,122,600
General exploration	163,284	335,783
	<b>\$ 1,737,493</b>	<b>14,658,436</b>

**(a) La Preciosa Property, Mexico**

During the year ended October 31, 2006, the Company completed the acquisition of a 100% interest in the La Preciosa mineral property from a subsidiary of Goldcorp Inc. (formerly Wheaton River Minerals Ltd.). To earn the 100% interest, the Company incurred cumulative exploration expenditures of US\$1,500,000 on the property, issued 50,000 common shares of the Company valued at \$21,000 during the year ended October 31, 2005 and issued 2,378,750 common shares of the Company valued at \$1,206,521 during the year ended October 31, 2006.

**(b) Santa Monica Property, Mexico**

During the year ended October 31, 2008, the Company completed the acquisition of a 51% interest in the Santa Monica mineral property from a subsidiary of Goldcorp Inc. To earn the 51% interest, the Company incurred cumulative exploration expenditures of US\$1,000,000 on the property, issued 50,000 common shares of the Company valued at \$21,000 during the year ended October 31, 2005, and issued 50,000 common shares of the Company valued at \$29,000 during the year ended October 31, 2007.

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 issued on June 16, 2009.

**(c) San Juan Property, Mexico**

During the year ended October 31, 2008, the Company completed the acquisition of a 75% interest in the San Juan mineral property from a subsidiary of Silver Standard Resources Inc. (the "Vendor"). To earn the 75% interest, the Company incurred cumulative exploration expenditures of US\$750,000 and issued 40,000 common shares of the Company valued at \$32,000 during the year ended October 31, 2006.

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 issued on June 16, 2009.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**6. MINERAL PROPERTIES (Continued)**

On October 23, 2009, the Company ceased consolidating Proyectos Mineros, which holds the mineral properties (note 5) and, accordingly, derecognized the mineral properties.

**(d) Title to Mineral Property Interests**

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

**(e) Realization of Assets**

Realization of the Company's investment in mineral properties is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs represent costs incurred to date and do not necessarily reflect present or future values.

**(f) Environmental**

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of the properties in which it has an interest that may result in material liability to the Company.

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**7. SHARE CAPITAL**

(a) **Authorized**

Unlimited number of common shares without par value

(b) **Issued**

(i) 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.

(ii) 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.

(c) **Stock Options**

The Company has a 20% fixed stock option plan that allows the Board of Directors to grant stock options to directors, officers, employees and consultants of the Company. On April 2, 2009, the Company increased the maximum number of stock options available for grant to 21,570,543. Options are exercisable at a price that is not less than the market price on the date granted. Any option granted under the plan will vest fully upon the date of grant, subject to the discretion of the Board. Options issued to consultants providing investor relations services must vest in stages over a minimum of 12 months with no more than one quarter of the options vesting in any three-month period.

Stock option activity since October 31, 2007 is presented below:

	Number of Options	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	1,050,000	\$ 0.54
Exercised	(425,000)	\$ 0.49
Forfeited	(500,000)	\$ 0.53
Outstanding, October 31, 2009	17,225,000	\$ 0.53

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**7. SHARE CAPITAL (Continued)**

(c) **Stock Options (Continued)**

- (i) On November 21, 2008, the Company reduced the exercise price of 13,190,000 incentive stock options as to 6,595,000 options (of which 4,507,500 options were subject to shareholder approval received on May 7, 2009) to \$0.45 per share and 6,595,000 options (of which 4,507,500 were subject to shareholder approval received on May 7, 2009) to \$0.60 per share.
- (ii) 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, 200,000 of the options being subject to shareholder approval (received on May 7, 2009).

The following table summarizes the stock options outstanding and exercisable at October 31, 2009:

Options Outstanding				Options Exercisable		
Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	
\$ 0.13 - \$ 0.25	175,000	0.17	\$ 0.20	175,000	\$ 0.20	
\$ 0.45 - \$ 0.47	6,895,000	3.05	\$ 0.45	6,895,000	\$ 0.45	
\$ 0.53 - \$ 0.58	2,960,000	1.65	\$ 0.55	2,960,000	\$ 0.55	
\$ 0.60 - \$ 0.63	6,945,000	2.89	\$ 0.60	6,945,000	\$ 0.60	
\$ 0.78 - \$ 0.80	250,000	3.46	\$ 0.79	137,500	\$ 0.79	
	17,225,000	2.72	\$ 0.53	17,112,500	\$ 0.53	

(d) **Stock-Based Compensation**

The Company applied the fair value method in accounting for its stock options granted to directors, officers and consultants of the Company using the Black-Scholes option pricing model. The stock-based compensation expense for stock options granted in the current year and for prior year options that vested in the current year was \$626,802 (2008 - \$4,222,910). The fair value of stock options granted as above is calculated using the following weighted average assumptions:

	2009	2008
Expected option life	2 years	2 years
Risk-free interest rate	1.5%	2.7%
Expected stock price volatility	85%	67%
Expected dividend yield	0%	0%

The weighted average fair value of options granted during the year is \$0.22 (2008 - \$0.57).

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**7. SHARE CAPITAL (Continued)**

**(d) Stock-Based Compensation (Continued)**

The Company applied the fair value method in accounting for the re-pricing of stock options previously issued to directors, officers and consultants of the Company (notes 7(c)(i) and (ii)) using the Black-Scholes option pricing model. The additional stock-based compensation expense related to the re-pricing was \$3,675,921.

The fair value of stock options re-priced in 2009 is calculated using the following weighted average assumptions:

	<b>2009</b>
Expected option life	2 years
Risk-free interest rate	1.2%
Expected stock price volatility	91%
Expected dividend yield	0%

**(e) Warrants**

Warrant activity since October 31, 2007 is presented below:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding, October 31, 2007	3,392,188	\$ 0.91
Granted	439,200	\$ 1.65
Exercised	(1,984,438)	\$ 0.84
Outstanding, October 31, 2008	1,846,950	\$ 1.15
Expired	(1,407,750)	\$ 1.00
Outstanding, October 31, 2009	439,200	\$ 1.65

The following table summarizes the warrants outstanding at October 31, 2009:

<b>Exercise Price</b>	<b>Number of Warrants</b>	<b>Issue Date</b>	<b>Expiry Date</b>
\$ 1.65	439,200	June 12, 2008	June 12, 2010

The following table summarizes the warrants outstanding at October 31, 2008:

<b>Exercise Price</b>	<b>Number of Warrants</b>	<b>Issue Date</b>	<b>Expiry Date</b>
\$ 1.00	1,407,750	August 24, 2007	August 24, 2009
\$ 1.65	439,200	June 12, 2008	June 12, 2010
	1,846,950		

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**7. SHARE CAPITAL (Continued)**

**(f) Shareholder Rights Plan**

The directors of the Company approved the adoption of a shareholder rights plan, dated December 4, 2007 (the "Rights Plan"), which was ratified by the Company's shareholders on March 13, 2008. The Rights Plan is intended to ensure that all shareholders of the Company are treated fairly in any transaction involving a potential change of control of the Company. The rights become exercisable only when a person or party acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with certain provisions of the Rights Plan. Each right would entitle each holder of common shares (other than the acquiring person or party) to purchase additional common shares of the Company at a 50% discount to the market price at the time. The Rights Plan is subject to a confirmation vote by the Company's shareholders every third year after coming into effect, and failing such confirmation vote, the agreement will terminate.

**8. CAPITAL MANAGEMENT**

The Company defines its capital as all components of shareholders' equity. The Company has no debt obligations. The Board of Directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns on unused capital. The Company does not pay dividends. The Company is not subject to any externally imposed capital requirements.

The Company raises capital to fund its corporate and exploration costs through the sale of its common shares or units consisting of common shares and warrants. Although the Company has been successful at raising funds in the past through issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions. There have been no changes to the Company's approach to capital management during the year.

**9. RELATED PARTY TRANSACTIONS**

- (a) As at October 31, 2009, \$29,070 (2008 - \$15,059) was advanced to officers of the Company for travel expenses to be incurred on behalf of the Company and is included in advances to related parties;
- (b) As at October 31, 2009, \$4,624 (2008 - \$13,709) is due to officers of the Company for travel expenses incurred on behalf of the Company and is included in due to related parties;
- (c) During the year ended October 31, 2009, geologist fees of \$109,938 (2008 - \$138,956) were paid to a company controlled by a director of the Company. As at October 31, 2009, \$nil (2008 - \$22,998) is payable to this company and included in due to related parties;
- (d) During the year ended October 31, 2009, management fees of \$349,490 (2008 - \$329,675) were paid to companies controlled by officers of the Company; and
- (e) The Company subleases office premises to related parties (note 11).

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**9. RELATED PARTY TRANSACTIONS (Continued)**

All advances and amounts due to related parties have repayment terms similar to the Company's other accounts receivable/payable, and are unsecured and without interest. All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**10. SEGMENT DISCLOSURE**

The Company operates in one industry and geographical segment, the mineral resource industry with all current exploration activities being conducted in Mexico through its investment in Proyectos Mineros.

**11. COMMITMENT**

On June 16, 2009, the Company entered into an 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:

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2010	\$	243,805
2011	\$	243,805
2012	\$	243,805
2013	\$	101,585

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The Company will sublease 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.

**12. INCOME TAXES**

The Company has accumulated non-capital losses of approximately \$13,242,000 that expire in various years to 2029 as follows:

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2010	\$	555,000
2014		247,000
2015		651,000
2026		1,867,000
2027		3,551,000
2028		1,370,000
2029		5,001,000
	\$	13,242,000

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**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

**12. INCOME TAXES (Continued)**

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision using a 30.13% (2008 – 31.6%) statutory tax rate is as follows:

	<b>2009</b>	<b>2008</b>
Income tax (recovery) at statutory rates	\$ (3,666,000)	\$ (6,810,000)
Tax effect of expenses that are not deductible (taxable) for income tax purposes:		
Equity loss on investment	449,000	-
Stock-based compensation expense	1,296,000	1,015,000
Exploration expenditures	338,000	(111,000)
Other deductible (taxable) items	(109,000)	106,000
Change in timing differences:		
Investment	496,000	-
Disposition of losses carried forward in subsidiary	4,607,000	-
Mineral properties	(1,249,000)	969,000
Other timing differences	117,000	(520,000)
Foreign tax rate differences	-	600,000
Change in future income taxes resulting from enacted tax rate reduction	95,000	1,610,000
Change in valuation allowance	(2,374,000)	3,141,000
	\$ -	\$ -

Significant components of the Company's future income tax assets and liabilities after applying enacted corporate income tax rates are as follows:

	<b>2009</b>	<b>2008</b>
Future income tax assets (liabilities)		
Non-capital losses carried forward	\$ 3,443,000	\$ 6,495,000
Canadian and foreign exploration expenses	4,041,000	2,849,000
Investment	(428,000)	-
Capital losses carried forward	54,000	52,000
Property and equipment	17,000	7,000
Share issuance costs	250,000	348,000
	7,377,000	9,751,000
Valuation allowance	(7,377,000)	(9,751,000)
Future income tax asset, net	\$ -	\$ -

**13. COMPARATIVE FIGURES**

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

**ORKO SILVER CORP.**  
**(An Exploration Stage Company)**  
**Notes to Financial Statements**  
**Years Ended October 31, 2009 and 2008**

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**14. SUBSEQUENT EVENTS**

- (a) On November 4, 2009, the Company granted 200,000 stock options to a consultant, each option being exercisable at a price of \$0.95 for a period of two years ending November 4, 2011.
- (b) The Company issued 525,000 common shares on the exercise of stock options for gross proceeds of \$249,250.