ORKO SILVER CORP.
(An Exploration Stage Company)
ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEARS ENDED OCTOBER 31, 2009 AND 2008

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED OCTOBER 31, 2009 AND 2008

(Dated January 22, 2010)

Management's Responsibility for Financial Reporting:

The accompanying 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 financial statements.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these 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 filings, and these financial statements together with the other financial information included in these 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 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.

In particular, forward looking comments regarding the Company's status and viability included in the "Liquidity" and "Corporate Summary" sections are views of management only, and actual results and outcomes could be materially different from management's estimates and expectations.

Description of Business:

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, either directly or through its investment in Proyectos Mineros La Preciosa S.A. de C.V. ("Proyectos Mineros") (formerly Orko Silver de Mexico, S.A. de C.V).

Since 2005, the Company has focused its activities on a contiguous land package in Durango, Mexico comprised of the La Preciosa, Santa Monica and San Juan properties, together termed the "La Preciosa Project properties".

La Preciosa Property:

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.

Description of Business (continued):

La Preciosa Property (continued):

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.

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 then completed multiple phases of the drilling program on the La Preciosa property continuously through to December 2008 such that 354 holes had 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 were constructed and a new road access route to southern targets completed. The Company was able to extend the strike length to 3.5 km in the resource area to date, and added a major vein deeper in the stratigraphy, named the Martha Vein.

In addition, a geochemical program consisting of 1,167 soil samples was conducted over the southern part of the La Preciosa property. Multiple geochemical anomaly targets were identified for future follow up.

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 resource estimate was based on all holes drilled to that date.

Santa Monica Property:

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.

The Company completed an initial work program on the Santa Monica property, 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. Following this, an IP geophysical survey by Peter Walcott & Associates Inc. of Vancouver, BC, which commenced in March 2007, 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.

Description of Business (continued):

San Juan Property:

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. 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.

An ASTER alteration satellite imagery study by PhotoSat Inc. of Vancouver, BC, for the San Juan property was 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 were 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 were completed in the La Plomosa target area for 3,372 metres.

Upon acquiring 100% interest in each of the La Preciosa, Santa Monica and San Juan properties, the title to each was registered to Proyectos Mineros, which was a wholly-owned Mexican subsidiary of the Company until April 13, 2009.

Joint Venture with Pan American Silver Corp.:

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.

Description of Business (continued):

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

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.

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.

Joint Venture Exploration Program:

In June 2009, the Company and Pan American commenced a comprehensive exploration and delineation drilling program at the La Preciosa Project. 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.

To late December 2009, Pan American has drilled 94 holes, including 14 holes on exploration targets outside the resource area, for a total of 28,039m. Delineation drilling is in the central area of the La Preciosa resource and consists of 65 holes. Drilling around the periphery of the resource includes 15 holes from the South Area on the Martha Vein. The results to date of the exploration drilling from Baritina, Baritina Norte and El Vaquero, which are targets outside of the Martha vein resource, have been inconclusive. Further drilling has been done in both areas; results of which are pending.

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 plan drilling other exploration targets.

In December 2009, Pan American completed a first phase detailed metallurgical program, which included: work index tests, abrasion tests, mineralogical studies, gravity tests, floatation tests and cyanide leach tests. Additional flotation studies are still underway. Simple cyanide leaching yielded average silver recoveries of 91%, although the use of selective oxidants could further enhance these results. In addition, Pan American has been successful in reducing cyanide consumption to 1.6 kg/t. Lastly, the current test work has shown that with the use of oxidants, the leach cycle times can be reduced to 48 hours with minimal impact on ultimate silver recovery.

Description of Business (continued):

Joint Venture Exploration Program (continued):

In 2010, Pan American plans a continued aggressive exploration program. Work will include approximately 51,000m of diamond drilling, with the majority of the drilling slated for further resource definition; 100km of magnetometer surveys; more detailed metallurgical testing; additional engineering studies, a preliminary economic assessment and continued community relations. Drill testing of two additional exploration targets and the completion of a preliminary environmental impact study (EIS) are also integral parts of this year's planned program.

Integral to the planned exploration and perhaps the most important investigation ongoing by Pan American will be determining the optimal mining method should all the results of the accelerated work program remain positive. Currently, Pan American is investigating the possibilities of mining the deposit by underground methods or by a large open pit or possibly a combination of the two methods. Pan American will need the results from the 2010 work program to determine the best approach to mining at La Preciosa.

Pan American has budgeted $10 million for the planned 2010 exploration and development and is working towards completing a full feasibility study towards the end of the year; more than a year ahead of the timing contemplated in the April 2009 binding letter of intent.

Ben Whiting, P.Geo., is the Qualified Person, as defined in National Instrument 43-101, and takes responsibility for the technical disclosure in this report.

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

During the second quarter of 2009, the Company signed a letter of intent whereby exploration work on the La Preciosa Project properties 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 effectively all exploration work on the La Preciosa Project properties since April 2009, resulted in exploration costs of essentially $nil for the fourth quarter of 2009, compared to $4,284,574 incurred in the fourth quarter of last year, when the Company conducted exploration activities directly. Exploration costs for both years were incurred entirely on the La Preciosa Project properties.

General operating costs totalled $2,626,153 for the fourth quarter, which were 66 per cent higher than those incurred in the fourth quarter of the prior year of $1,583,939. The increase was almost entirely due to a $1,693,860 charge the Company recorded to reflect the imputed non-cash cost of stock options granted to directors, officers, staff and consultants whereas in the fourth quarter of 2008, the cost was $853,516. Professional fees associated with preparing the definitive shareholders' agreement with Pan American, of $222,810, were also higher, compared to $33,117 incurred last year. Other administrative costs were in line with those of the fourth quarter of last year.

Upon signing of the definitive shareholders' agreement on October 23, 2009, 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. During the period of April 13, 2009 to October 31, 2009, Proyectos Mineros incurred a loss due to Phase I exploration activities. Accordingly, the Company recognized a loss on its equity accounted investment in the amount of $1,488,901 to reflect its proportionate share of the loss.

Overall, the net loss in the fourth quarter of fiscal 2009 amounted to $4,097,844 or $0.04 per share, down 33 per cent compared to the loss for the fourth quarter of 2008 of $6,096,421 or $0.05 per share. The decrease was due to the significantly lower exploration costs this quarter as a result of the carried interest arrangement with Pan American.

Results of Operations for the Years Ended October 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 signed a binding letter of intent whereby all exploration work on the La Preciosa Project is to be conducted and funded by Pan American. Consequently, the reduced level of exploration conducted directly by the Company in the first quarter, combined with the Company's carried interest on effectively all exploration work on the La Preciosa Project properties in subsequent quarters, resulted in significantly lower exploration costs of $1,737,493 in 2009, compared to $14,658,436 incurred last year. Of the exploration costs incurred this year, drilling costs were only $555,210, down from $10,515,567 when four drills were active essentially all year. Further, assay costs were $199,032, down from $1,583,621 and site costs were $257,000, down from $1,122,600, both reductions as a result of the lower drilling activity level this year.

In 2009, the Company incurred $8,929,563 for general expenses, up 31 per cent over those incurred last year of $6,839,807. Consulting fees of $1,551,614 and professional fees of $673,333 were up significantly from the prior year amounts of $45,627 and $205,980 respectively, both increases due to costs incurred to conclude and receive approval of the letter of intent with Pan American. As well, investor relations costs of $760,488 were up considerably from those incurred last year of $548,191, due to the Company's efforts to maintain investor awareness, particularly of the Company's joint venture with Pan American. Less travel was required to the Company's properties in Mexico this year and as a result, travel costs of $713,711 were down 25 per cent from $952,532 incurred in 2008. In 2009, the Company recorded a non-cash charge of $4,302,723 to earnings for the imputed value of stock options granted to directors, officers and consultants, compared to the charge of $4,222,910 recorded last year. Costs in other categories were essentially consistent with those incurred last year.

As described in more detail in the fourth quarter commentary above, in 2009, the Company recognized a loss on equity accounted investment in the amount of $1,488,901. Because Proyectos Mineros was a wholly-owned subsidiary in 2008, there was no comparable amount recorded last year.

Overall, the net loss for 2009 amounted to $12,168,354 or $0.11 per share, compared to a loss last year of $21,549,564 or $0.21 per share. The decrease is attributable primarily to the significantly lower exploration costs this year as a result of the carried interest arrangement with Pan American.

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

	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 Proyectos Mineros	(1,234,163)	(1,530,000)	(258,635)	(3,022,798)
Balance, October 31, 2009	$ -	$ -	$ -	$ -

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

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

	La Preciosa Project Total	
	2009	**2008**
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
	$ 1,737,493	$ 14,658,436

Selected Annual Financial Information:

		For the Year Ended October 31, 2009	For the Year Ended October 31, 2008	For the Year Ended October 31, 2007 (Restated)
Total revenues		Nil	Nil	Nil
Loss before discontinued operations and extraordinary items:				
(i)	total for the year	(12,168,354)	(21,549,564)	(12,925,523)
(ii)	per share	(0.11)	(0.21)	(0.16)
(iii)	per share fully diluted	(0.11)	(0.21)	(0.16)
Net Loss:				
(i)	total for the year	(12,168,354)	(21,549,564)	(12,925,523)
(ii)	per share	(0.11)	(0.21)	(0.16)
(iii)	per share fully diluted	(0.11)	(0.21)	(0.16)
Total assets		5,912,175	6,445,921	10,364,538
Total long-term financial liabilities		Nil	Nil	Nil
Cash dividends declared per-share		Nil	Nil	Nil

The loss for 2009 includes approximately $1.7 million in drilling and other exploration costs incurred on the La Preciosa Project properties, down significantly from prior years. The loss also includes $1.5 million for consulting fees incurred to obtain fairness opinions required to enter the Pan American agreement and $4.3 million in stock-based compensation for options that were repriced or vested in 2009. In addition, the Company recorded a $1.5 million loss on its equity accounted investment in Proyectos Mineros.

The loss for 2008 includes approximately $14.7 million in drilling, up $6.8 million, and other exploration costs incurred on the La Preciosa Project properties. The loss also includes $4.2 million in stock-based compensation for options that vested in 2008.

The loss for 2007 includes approximately $7.9 million in drilling, up $3.2 million, and other exploration costs incurred on the La Preciosa Project properties. The loss also includes $3.1 million in stock-based compensation for options that vested in 2007.

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	Nil
(b) Loss for period	$ (4,097,844)	$ (2,787,248)	$ (3,154,383)	$ (2,128,879)
(c) Loss per share – basic and diluted	$ (0.04)	$ (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 – basic and diluted	$ (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 – basic and diluted	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.03)

In an effort to preserve working capital, the Company halted its drill program on the La Preciosa property in the first quarter of 2009, and in April 2009, signed the binding letter of intent with Pan American. Consequently, drilling and other exploration costs decreased from $1.2 million in the first quarter of 2009 to $0.5 million, $0.1 million and essentially $nil for the second, third and fourth quarters respectively as Pan American funded all subsequent exploration work. Stock-based compensation recorded to reflect the computed value of stock options that vested was $0.5 million, $0.3 million, $1.9 million and $1.7 million in the first, second, third and fourth quarters respectively. 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 an agreement with Pan American, $0.8 million in the third quarter and $0.9 million in the fourth 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.

Outstanding Share Data:

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

	Common Shares #	**Share Capital $**
Balance, October 31, 2007	96,798,278	31,847,472
Issued 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, October 31, 2008	107,727,716	45,887,061
Issued for cash:		
Non- brokered private placement, net of share issue costs	4,000,000	4,916,650
Exercise of options	425,000	209,250
Issued for property:		
Issued for the Santa Monica property	2,000,000	1,480,000
Issued for the San Juan property	306,263	226,635
Transferred from contributed surplus:		
Exercise of options	-	265,658
Balance, October 31, 2009	114,458,979	52,985,254
Issued for cash:		
Exercise of options	525,000	249,250
Transferred from contributed surplus:		
Exercise of options	-	224,163
Balance, January 22, 2010	114,983,979	53,458,667

Outstanding Share Data (continued):

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.

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.

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
Granted	200,000	$ 0.95
Exercised	(525,000)	$ 0.80
Forfeited	(75,000)	$ 0.80
Outstanding, January 22, 2010	16,825,000	$ 0.54

Options (continued):

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. The Company received TSX Venture Exchange acceptance 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 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.

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

Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$ 0.13 - $ 0.25	175,000	0.2	$ 0.20
$ 0.45 - $ 0.47	6,895,000	3.1	$ 0.45
$ 0.53 - $ 0.58	2,960,000	1.7	$ 0.55
$ 0.60 - $ 0.63	6,945,000	2. 9	$ 0.60
$ 0.78 - $ 0.80	250,000	3.5	$ 0.79
	17,225,000	2.7	$ 0.53

The following table summarize the stock options outstanding and exercisable at January 22, 2010:

Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$ 0.45 - $ 0.47	6,820,000	2.8	$ 0.45
$ 0.53 - $ 0.58	2,960,000	1.4	$ 0.55
$ 0.60 - $ 0.63	6,745,000	2.7	$ 0.60
$ 0.78	100,000	4.6	$ 0.78
$ 0.95	200,000	1.8	$ 0.95
	16,825,000	2.5	$ 0.54

Warrants:

Warrant activity since October 31, 2007 is presented below:

	Number of Warrants	Weighted Average Exercise Price
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 and January 22, 2010	439,200	$ 1.65

The following table summarizes the warrants outstanding at October 31, 2009 and January 22, 2010:

Exercise Price	Number of Warrants	Issue Date	Expiry Date
$ 1.65	439,200	June 12, 2008	June 12, 2010

Liquidity:

The Company's financial position decreased from the opening level of $3,455,834, comprised of cash on hand of $424,871 and $3,030,963 in short-term investments to the year-end level of $2,015,204, comprised of cash on hand of $212,541 and $1,802,663 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 425,000 shares on the exercise of options receiving proceeds of $209,250, for total cash received from the issuance of common shares of $5,125,900.

Offsetting this cash inflow, the net loss for the year of $12,168,354, after adjusting for non-cash items and changes in non-cash working capital accounts, amounted to a $6,532,896 cash requirement.

To partially fund this cash requirement, the Company redeemed $1,200,000 from its short-term investments in the year.

In summary, the aggregate net cash inflows from financing activities during the 2009, which totalled $5,125,900, and the drawdown of the Company's short-term investments by $1,200,000 essentially funded the adjusted cash operating loss for the period of $6,532,896. The shortfall, amounting to $212,330, decreased the opening financial position such that cash on hand of $212,541 and short-term investments of $1,802,663 remained at the end of the year available to fund the Company's ongoing corporate activities.

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:

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

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.

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 through to production. Furthermore, there have recently 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 a reduced level of operations, pending a return to better market conditions where a financing could be completed.

Capital Resources:

The Company had $1.8 million in cash and short-term investments as of January 22, 2010. The Company will continue to seek capital, as needed, through public markets by issuing common shares pursuant to private placements.

Off Balance Sheet Arrangements:

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

Related Party Transactions:

(a) As at October 31, 2009, $29,070 (2008 - $15,059) was advanced to the Chief Executive Officer, Executive Vice-President and Vice-President of Exploration 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 the Chief Financial Officer and Secretary 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 the Vice-President of Exploration 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 the Chief Executive Officer, Executive Vice-President, Chief Financial Officer and Secretary of the Company; and

(e) The Company subleases office premises to related parties.

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.

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 ("ICS"), 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. In December 2009, the Company terminated the services of ICS.

Adoption of New Accounting Standards and Developments:

(a) 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.

Adoption of New Accounting Standards and Developments (continued):

(b) 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.

(c) 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:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) 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
(iii) 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.

Future Accounting Pronouncements:

(a) 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 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.

Future Accounting Pronouncements:

(b) 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.

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.

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. Properties held by the Company’s investment, Proyectos Mineros, are subject to these same criteria.

(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 properties held by the Company’s investment, Proyectos Mineros.

Critical Accounting Estimates (continued):

(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) Impairment of Investments

The Company routinely assesses whether the carrying values of its investments continue to be appropriate and have not been impaired. When an impairment has been identified for an investment, the carrying value is adjusted to reflect the degree of impairment experienced, and ultimately to reflect the net realizable value to the Company.

(e) 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 operations.

(f) 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.

Risks and Uncertainties (continued):

(b) Uncertainty of Title Risks:

The Company’s investment, Proyectos Mineros, has obtained clear title of its properties. 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, either directly or through its investment in Proyectos Mineros, manages its exploration and development activities to minimize 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 or Proyectos Mineros 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 and the operations of its investment, Proyectos Mineros, 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 and Proyectos Mineros are exposed to a large array of conditions to satisfy on a daily basis in its activities, and considerable risk exists that the Company or Proyectos Mineros will fail to be fully compliant in all respects in this political and regulatory environment.

(e) Foreign Exchange Risks:

The Company incurs expenditures in foreign currencies 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:

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:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investment	$ 1,802,663	$ 1,802,663	$ -	$ -
	$ 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.

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:

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

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

Financial Instruments (continued):

(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.

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.

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) During the period of November 1, 2009 to January 22, 2010, the Company issued 525,000 common shares on the exercise of stock options for gross proceeds of $249,250.

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.