

ORKO SILVER CORP.**(An Exploration Stage Company)****Balance Sheets****As at January 31, 2010 and October 31, 2009****(Unaudited)****Notice of no audit review of interim financial statements:**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements for the period ended January 31, 2010.

	January 31, 2010 \$ (Unaudited)	October 31, 2009 \$
Assets		
Current		
Cash	88,125	212,541
Short-term investments (note 3(b))	1,703,815	1,802,663
Receivables	52,480	42,700
Prepaid expenses and deposits	59,128	107,355
Advances to related parties (note 9)	25,825	29,070
	1,929,373	2,194,329
Deposits	36,333	36,333
Property and Equipment (note 4)	373,383	378,291
Investment (note 5)	3,237,801	3,303,222
Mineral Properties (note 6)	-	-
	5,576,890	5,912,175
Liabilities		
Current		
Accounts payable and accrued liabilities	42,292	52,555
Due to related parties (note 9)	-	4,624
	42,292	57,179
Shareholders' Equity		
Share Capital	53,458,667	52,985,254
Contributed Surplus	14,604,076	13,977,636
Deficit	(62,528,145)	(61,107,894)
	5,534,598	5,854,996
	5,576,890	5,912,175

Nature of operations and going concern (note 1)

Commitment (note 11)

Subsequent event (note 13)

Approved by the Board:

"Gary Cope"

..... Director

Gary Cope

"Rick Sayers"

..... Director

Rick Sayers

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Operations
Three Months Ended January 31, 2010 and 2009
(Unaudited)

	Three Months Ended January 31,	
	2010	2009
	\$	\$
Exploration Expenses		
Drilling	-	555,210
Geological	26,076	251,210
Assay	-	109,283
Site Costs	-	176,700
General exploration	4,290	68,297
	30,366	1,160,700
Expenses		
Amortization	4,908	5,885
Bank charges and interest	274	1,631
Consulting fees	12,648	12,956
Investor relations	141,349	83,801
Management fees (note 9)	84,750	84,125
Office and miscellaneous	52,480	46,018
Professional fees	50,177	65,525
Rent	26,779	18,390
Repairs and maintenance	19,578	7,754
Stock-based compensation (note 7(d))	99,636	455,106
Telephone and communications	10,191	6,421
Transfer agent and filing fees	2,307	13,057
Travel and entertainment	68,271	74,745
	573,348	875,414
Other Items		
Interest income	(1,342)	(8,562)
Foreign exchange loss	1,491	101,327
Share of loss on equity accounted investment (note 5)	816,388	-
	816,537	92,765
Net Loss for Period and Comprehensive Loss for Period		
	1,420,251	2,128,879
Loss Per Share		
- basic and diluted	0.01	0.02
Weighted Average Number of Common Shares Outstanding		
	114,717,000	107,728,000

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Shareholders' Equity
At January 31, 2010
(Unaudited)

	Common Shares #	Share Capital \$	Contributed Surplus \$	Deficit \$	Deficit \$
Balance, October 31, 2008	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))	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)
Balance, October 31, 2009	114,458,979	52,985,254	13,977,636	(61,107,894)	5,854,996
Issued for cash:					
Exercise of options	525,000	249,250	-	-	249,250
Transferred from contributed surplus:					
Exercise of options	-	224,163	(224,163)	-	-
Stock-based compensation			99,636	-	99,636
Share of contributed surplus from investment (note 5)			750,967	-	750,967
Net loss and comprehensive loss	-	-	-	(1,420,251)	(1,420,251)
Balance, January 31, 2010	114,983,979	53,458,667	14,604,076	(62,528,145)	5,534,598

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Cash Flows
Three Months Ended January 31, 2010 and 2009
(Unaudited)

	Three Months Ended January 31,	
	2010	2010
	\$	\$
Operating Activities		
Net loss for year	(1,420,251)	(2,128,879)
Items not involving cash		
Accrued interest on short-term investments	(1,152)	18,063
Amortization	4,908	5,885
Stock-based compensation expense	99,636	455,106
Share of loss on equity accounted investment	816,388	-
Unrealized loss on foreign exchange	223	-
	(500,248)	(1,649,825)
Changes in non-cash working capital items		
Receivables	(9,780)	281,955
Prepaid expenses and deposits	48,227	131,160
Advances to related parties	3,245	3,472
Accounts payable and accrued liabilities	(10,263)	(1,119,288)
Due to related parties	(4,624)	(37,195)
Cash Used in Operating Activities	(473,443)	(2,389,721)
Investing Activities		
Redemption of short-term investments	100,000	2,100,000
Cash Provided by Investing Activities	100,000	2,100,000
Financing Activities		
Proceeds from common shares issued, net of share issue costs	249,250	-
Cash Provided by Financing Activities	249,250	-
Foreign Exchange Gain (Loss) on Cash Held in Foreign Currency	(223)	48,992
Decrease in Cash During the Period	(124,416)	(240,729)
Cash, Beginning of Period	212,541	424,871
Cash, End of Period	88,125	184,142
Supplemental Information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Share of contributed surplus of equity accounted investment	\$ 750,967	\$ -

The accompanying notes are an integral part of these financial statements.

ORKO SILVER CORP.
(An Exploration Stage Company)
Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

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 January 31, 2010, the Company had working capital of \$1,887,081 (2009 - \$2,137,150) and accumulated deficit of \$62,528,145 (2009 - \$61,107,894) 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.

These interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended October 31, 2009, with the adoption of new accounting pronouncements as disclosed herein. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto in the Company's annual report for the year ended October 31, 2009.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 period.

(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.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 period. 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 period. 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.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

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).

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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

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**

The Company has not adopted any new accounting standards during the current period.

(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.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

3. FINANCIAL INSTRUMENTS

The Company has designated its cash and short-term investments as held-for-trading; receivables and 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 investments, receivables 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 January 31, 2010 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Assets				
Short-term investments	1,703,815	1,703,815	-	-

The Company's short-term investments are 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.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

3. FINANCIAL INSTRUMENTS (Continued)

(b) Credit Risk

The Company is exposed to credit risk with respect to its cash, short-term investments and advances to related parties. This risk is minimized as the cash and short-term investments have been placed with a major Canadian financial institution. Credit risk on receivables is minimized as they primarily consist of amounts due from government agencies.

Concentration of credit risk exists with respect to the Company's cash and short-term investments 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:

	January 31, 2010	October 31, 2009
	\$	\$
Bank accounts	88,125	212,541
Short-term investments	1,703,815	1,802,663
	1,791,940	2,015,204

The short-term investments currently earn interest at 0.30% and mature 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 investments at January 31, 2010 in the amount of \$1,791,940 (2009 - \$2,015,204) in order to meet its short-term business requirements. At January 31, 2010, the Company had accounts payable and accrued liabilities of \$42,292 (2009 - \$52,555) and due to related parties of \$nil (2009 - \$4,624), which are due in the second quarter of fiscal 2010.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

3. FINANCIAL INSTRUMENTS (Continued)

(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 investments 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 January 31, 2010. Future cash flows from interest income on cash and short-term investments will be affected by interest rate fluctuations. At January 31, 2010, a hypothetical change of 1% in the interest rate would have a \$4,000 effect on net income and comprehensive income in the upcoming quarter.

(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.

ORKO SILVER CORP.
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Notes to Financial Statements
For the Three Months Ended January 31, 2010 and 2009

4. PROPERTY AND EQUIPMENT

	January 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Land	113,024	-	113,024
Building	270,928	34,127	236,801
Automobile	33,342	18,827	14,515
Computer hardware	34,089	25,046	9,043
	451,383	78,000	373,383

	October 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
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

5. INVESTMENT

Prior to April 13, 2009, the Company owned a 100% equity interest in Proyectos Mineros La Preciosa S.A. de C.V., 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 Silver Corp. 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.

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5. INVESTMENT (Continued)

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

Since April 13, 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
Share of contributed surplus	750,967
Share of loss on equity accounted investment	(816,388)
Investment, January 31, 2010	3,237,801

Since April 13, 2009, Proyectos Mineros has incurred losses due to Phase I exploration activities, which are funded by Pan American's additions to contributed surplus. Changes to the carrying value of the investment are recorded to reflect the Company's proportionate share of the loss and additions to contributed surplus.

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5. INVESTMENT (Continued)

Condensed balance sheet information for Proyectos Mineros as at January 31, 2010 and October 31, 2009 is presented below:

Balance Sheet	January 31, 2010 \$	October 31, 2009 \$
Assets:		
Current assets	954,433	558,009
Capital assets	76,789	88,493
Total assets	1,031,222	646,502
Liabilities	544,558	14,457

Condensed operations information for Proyectos Mineros for the period ended January 31, 2010 is presented below:

Statement of Operations	Three Months Ended January 31, 2010 \$
Exploration expenditures	1,790,299
Other expenditures	23,897
Net loss	1,814,196

6. MINERAL PROPERTIES

The Company's mineral properties are as follows:

	La Preciosa \$	Santa Monica \$	San Juan \$	La Preciosa Project Total \$
Balance, October 31, 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)
Balance, October 31, 2009 and January 31, 2010	-	-	-	-

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6. MINERAL PROPERTIES (Continued)

Exploration expenditures on mineral properties for the three months ended January 31, 2010 and 2009 are as follows:

	La Preciosa Project Total	
	Three Months Ended January 31,	
	2010	2009
	\$	\$
Drilling	-	555,210
Geological	26,076	251,210
Assay	-	109,283
Site costs	-	176,700
General exploration	4,290	68,297
	30,366	1,160,700

(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 fiscal 2005 and issued 2,378,750 common shares of the Company valued at \$1,206,521 during fiscal 2006.

(b) Santa Monica Property, Mexico

During the year ended October 31, 2009, the Company completed the acquisition of a 100% interest in the Santa Monica mineral property from a subsidiary of Goldcorp Inc. To earn the 10% 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 fiscal 2005, issued 50,000 common shares of the Company valued at \$29,000 during fiscal 2007 and issued 2,000,000 common shares of the Company valued at \$1,480,000 during fiscal 2009.

(c) San Juan Property, Mexico

During the year ended October 31, 2009, the Company completed the acquisition of a 100% interest in the San Juan mineral property from a subsidiary of Silver Standard Resources Inc. To earn the 100% interest, the Company incurred cumulative exploration expenditures of US\$750,000, issued 40,000 common shares of the Company valued at \$32,000 during fiscal 2006 and issued 306,263 common shares of the Company valued at \$226,635 during fiscal 2009.

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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.

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7. SHARE CAPITAL

(a) **Authorized**

Unlimited number of common shares without par value

(b) **Issued**

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.

(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, 2008 is presented below:

	Number of Options	Weighted Average Exercise Price
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)	\$ 0.47
Forfeited	(75,000)	\$ 0.80
Outstanding, January 31, 2010	16,825,000	\$ 0.54

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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 January 31, 2010:

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	
\$ 0.45 - \$ 0.47	6,820,000	2.8	\$ 0.45	6,820,000	\$ 0.45	
\$ 0.53 - \$ 0.58	2,960,000	1.4	\$ 0.55	2,960,000	\$ 0.55	
\$ 0.60 - \$ 0.63	6,745,000	2.7	\$ 0.60	6,745,000	\$ 0.60	
\$ 0.78	100,000	4.6	\$ 0.78	100,000	\$ 0.78	
\$ 0.95	200,000	1.8	\$ 0.95	200,000	\$ 0.95	
	16,825,000	2.5	\$ 0.54	16,825,000	\$ 0.54	

(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. During the three months ended January 31, 2010, the Company granted 200,000 (2009 – 800,000) stock options to directors, officers and consultants. The stock-based compensation expense for stock options, granted in the current and prior periods, that vested in the current period was \$99,636 (2009 - \$88,385).

During the three months ended January 31, 2010, the weighted average fair value of each option granted was \$0.48 (2009 - \$0.15) and was calculated using the following weighted average assumptions:

	Three Months Ended January 31,	
	2010	2009
Expected option life	2 years	2 years
Risk-free interest rate	1.3%	2.9%
Expected stock price volatility	94%	64%
Expected dividend yield	0%	0%

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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. During the three months ended January 31, 2009, the additional stock-based compensation expense related to the re-pricing of options not subject to shareholder approval was \$366,721.

The fair value of stock options re-priced during the three months ended January 31, 2009 was calculated using the following weighted average assumptions:

	Three Months Ended January 31, 2009
Expected option life	2 years
Risk-free interest rate	1.9%
Expected stock price volatility	79%
Expected dividend yield	0%

(e) **Warrants**

Warrant activity since October 31, 2008 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, October 31, 2008	1,846,950	\$ 1.15
Expired	(1,407,750)	\$ 1.00
Outstanding, October 31, 2009 and January 31, 2010	439,200	\$ 1.65

The following table summarizes the warrants outstanding at January 31, 2010:

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

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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 period.

9. RELATED PARTY TRANSACTIONS

- (a) As at January 31, 2010, \$25,825 (2009 - \$29,070) 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 January 31, 2010, \$nil (2009 - \$4,624) 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 three months ended January 31, 2010, geologist fees of \$25,800 (2009 - \$32,538) were paid or accrued to a company controlled by a director of the Company. As at January 31, 2010, \$nil (2009 - \$nil) is payable to this company and included in due to related parties;
- (d) During the three months ended January 31, 2010, management fees of \$84,750 (2009 - \$84,125) were paid or accrued to companies controlled by officers of the Company; and
- (e) The Company subleases office premises to related parties (note 11).

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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:

	\$
2010	182,854
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.

12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENT

During the period of February 1, 2010 to March 12, 2010, the Company issued 100,000 common shares on the exercise of stock options for gross proceeds of \$60,000.